

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 17–20, 2013

Agenda Item 2A

For:

☐ Approval

☒ Discussion

☐ Information

Conceptual Framework: Responses to Exposure Draft, *Elements and Recognition in Financial Statements*

Objective(s) of Agenda Item

1. The objectives of the session are:
 - (a) To discuss a preliminary analysis of the responses to the Conceptual Framework Exposure Draft (CF–ED2), *Elements and Recognition in Financial Statements*;
 - (b) To obtain preliminary directions from the IPSASB for the development of a final chapter where appropriate and
 - (c) To identify issues for further and more detailed discussion at the September meeting.

Material(s) Presented

Agenda Item 2A.1	Issues Paper
Agenda Item 2A.2	List of Respondents and Collation and Summary of Respondents' Comments with Staff Views
Agenda Item 2A.3	Analysis of Respondents by Region, Function, and Language
Agenda Item 2A.4	Responses to CF–ED2 (previously circulated)

CONCEPTUAL FRAMEWORK: ISSUES PAPER ON RESPONSES TO CF-ED2**Background**

1. Conceptual Framework Exposure Draft 2 (CF-ED2), *Elements and Recognition*, was issued in early November 2012 with a consultation period until April 30th 2013. As at May 15th 2013, 40 responses had been received. These responses have been posted on the IPSASB section of the IFAC website and are also included at Agenda Item 2A.4. A list of these respondents and a collation and summary of respondents' comments is provided at Agenda Item 2A.2. An analysis by region, function and language is provided at Agenda Item 2A.3.
2. Responses received after May 15th have been posted on the website. They are not reflected in these agenda papers and will not be considered at the June meeting. However, they will be thoroughly considered and reflected in the agenda papers for the September meeting.

General Comments and Overall Views

3. In categorizing responses Staff has had to exercise judgment. The substance of the points raised in responses is more important than the staff categorization. The Issues Paper and Collation and Summary should be read in conjunction with the responses.
4. A number of respondents highlighted, and expressed strong views on, the relationship between the IPSASB Framework and the reactivated IASB Conceptual Framework. This issue is discussed in the Coordinator's Report at Agenda Item 2.1. This issue is not considered further in this Issues Paper.
5. Most comments related to the proposal to introduce deferred inflows and deferred outflows as separate elements. While there was some support for defining deferred inflows and deferred outflows as separate elements, the majority of those expressing a view opposed these elements. A number of respondents expressed strong reservations about the interaction between the definitions of deferred inflows and deferred outflows and the definitions of revenues and expenses as well as the need for, and meaning of, net financial position. Responses on these issues are considered in more detail later in this paper.
6. The terms asset and liability-led (A&L) and revenue and expenses-led (R&E) approaches were used in the 2010 Consultation Paper (CP) on Elements and Recognition. In developing the ED, the IPSASB decided that contrasting the two approaches diverted attention from developing approaches that meet the objectives of financial reporting. Nevertheless, a number of respondents referred to the two approaches in their responses. Respondent 037 specifically commented that in the CP an A&L approach was advocated but concluded that the IPSASB has now rejected that approach in favor of an R&E approach, which means that assets and liabilities are not considered to be the principal building blocks. Respondent 037 expressed opposition to such a development. Although deferred inflows and deferred outflows are proposed as elements, Staff does not think that either a fully-fledged A&L- or a fully-fledged R&E approach was proposed in the ED.
7. Some respondents sought the addition of examples within the Framework. During development of CF-ED2 an approach of not including detailed examples was adopted because examples tend to

divert attention from the key principles. Staff does not think the inclusion of detailed examples is appropriate.

8. The significant issues identified from responses to date have been gathered below under the heading of the Specific Matters for Comment (SMCs), commencing with deferred inflows and deferred outflows.

Significant issues

Specific Matter for Comment 5 (a) Deferred Inflows and Deferred Outflows as Elements

9. The definitions proposed were;

“A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets.”

“A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.”

10. 11 of the 39 respondents who expressed a view supported defining deferred inflows and deferred outflows as elements, (Respondents 001, 004, 010, 012, 017, 019, 029, 032, 033, 034 and 035). Three further respondents partially agreed (Respondents 006, 014 and 028). 25, the majority of respondents, did not support the introduction of deferred inflows and deferred outflows (002, 003, 005, 007, 008, 009, 011, 013, 015, 016, 018, 020, 021, 022, 023, 024, 025, 026, 030, 031, 036, 037, 038, 039 and 040).
11. Respondents opposing deferred inflows and deferred outflows generally gave more detailed reasons for their stance than those who favor these two elements.

Comments in favor of deferred inflows and deferred outflows as elements

12. Respondent 012 considered that these elements are required because there are circumstances when it is inappropriate to recognize increases or decreases in net assets as either revenue or expenses of the period and where the resulting balances do not meet the definition of either a liability or an asset. This respondent agreed with the rejection of the other comprehensive income (OCI) model in IFRS, whereby certain items of income and expense, such as reclassification adjustments and remeasurements are not recognized in profit and loss, or the modification of the definitions of assets and liabilities as potential solutions to this issue. Respondent 012 concluded that identification of these transactions as deferred inflows and deferred outflows is the most transparent way of representing this information. Respondent 015 considered that deferred inflows are necessary in order to account for funds received in one period that will be spent by the entity in later periods. Respondent 035, while agreeing that deferred elements are distinct both from assets and from liabilities and should be defined separately, suggested the proposed definitions be reviewed to clarify that deferred inflows and deferred outflows are related to multi-year grants.

Comments against deferred inflows and deferred outflows as elements.

11. Respondents made a number of comments against introduction of these elements. These comments are grouped under the following headings:
 - (a) The approach does not reflect economic reality and refines the existing global accounting framework

- (b) Elements based on time restrictions
- (c) Respondent seeks clarification of the problem the proposal is trying to solve
- (d) The problem is understood but the explanation is not convincing
- (e) The terms deferred inflows and deferred outflows are not well understood
- (f) Preference for use of the A+L model
- (g) Comparison with budgets
- (h) Suggestion for optional recognition of deferred inflows and deferred outflows
- (i) Responses to AVs
- (j) Staff views

Economic reality and global accounting framework

12. Four respondents (008, 009, 031 and 039) stated that the proposed approach does not reflect economic reality at a given point in time and that elements in financial statements should represent real-world phenomena. According to this view elements should be defined in relation to economic resources and economic obligations and not from accounting constructs. Respondent 031 believed that the inclusion of deferred inflows and deferred outflows as elements fundamentally redefines the accounting framework that is generally accepted globally across both the public and private sectors, without sufficient justification. As the deferred inflow/outflow approach represents a radical departure from the approach used under IFRS and Government Finance Statistics the respondent would have expected further information and conceptual justification based on specific public sector issues and public sector user needs to be provided.

Elements based on time restrictions

13. Respondent 037 did not support identifying deferred inflows and outflows as elements because to do so requires limiting the application of revenue and expenses, changing the definitions of the elements of assets and liabilities and expanding the Framework to include new elements based on timing stipulations.
14. Respondent 040 suggested it would be better if the definitions of assets and liabilities could be modified so as to encompass the few items that would meet the definitions of deferred inflow/outflows. Staff is not in favor of this suggestion because this could involve including stocks that an entity does not control as assets and stocks where there is no present obligation as liabilities.

Respondent seeks clarification of perceived problem the proposal is trying to solve

15. Respondent 008 suggested it would be helpful to have a clearer discussion of the problem that the proposal to introduce deferred inflows and deferred outflows is trying to solve, together with a more robust and conceptual basis for why, and how, for public sector entities the proposed approach better meets the objectives of GPFRs, and also meets the QCs. Some respondents (018,021,023,024 and 037) considered that the introduction of deferred inflows and deferred outflows, together with their impact on the definitions of other elements, would increase the complexity of the financial statements and be confusing to users to such an extent as to outweigh the potential benefits.

Problem understood but explanation not convincing

16. Respondent 038 understands the issue the Board is attempting to address but did not find the justification for defining deferred inflows or deferred outflows as elements sound or convincing. The respondent noted that one justification for deferred inflows and deferred outflows is the passage of time and the reasons for delaying the recognition of flows as revenue and expenses is so that they are linked to the period specified by the transferor. However, the respondent's view that these flows should be included in the definitions of revenue and expenses is consistent with the dissenting view of Jeanine Poggiolini.

Terms deferred inflows and deferred outflows are not well understood or used

17. Respondent (013) suggested that since the terms deferred inflows and deferred outflows are not well understood or used in practice it would be best not to use these concepts and terms. Respondent 018 expressed concern that the inclusion of deferred inflows and deferred outflows as elements overemphasizes the importance of information on such flows.
18. Staff considers that if the IPSASB is to retain deferred inflows and deferred outflows there might be a case for expanding the explanation of the requirement for them when accounting for resources transferred to the entity without conditions but with time considerations set out in paragraphs BC 40-43. However as noted above there is a risk that presenting complex examples deflects attention from the principles, so the manner of doing so merits further consideration.

Preference for use of A&L model

19. Respondents 022 and 030 noted that deferred inflows and outflows are not traditionally elements of a conceptual framework based on an A&L model, but rather one that is based on an R&L model, which focuses on flows of resources that are applicable to a particular period. A critical issue with the R&L model is the difficulty in developing an objective basis for deferring revenue and expenses. These respondents, and others, prefer a Framework based on an A&L model because they consider that it is logical, defensible and addresses the QCs. Under the A&L model no judgment is required to ascertain if an inflow or outflow is appropriately attributable to the current or future periods. All items that represent increases or decreases in the net resources of the entity in the period between reporting dates are included and are therefore part of financial performance. If, as a consequence, material income and expenditure is recognized in respect of amounts to be applied in future years, they suggest this could be disclosed by analysis of net assets on the face of the statement of financial position or by means of a note disclosure. Staff believes this presentation approach should be considered for the September meeting.

Comparison with budgets

20. Respondent 033 noted that given the significance of balanced budgets and the resulting focus on annual surplus /deficit, a Framework that is focused on the statement of financial position may lead to standards that are contrary to the public interest. Staff recognizes that one benefit of deferred inflows and deferred outflows is that they may align better with budgetary frameworks.
21. Respondent 036 noted that the recognition of elements based on an A&L approach seems more reliable and less vulnerable to manipulation than an R&E approach. Respondent 038 considered that, despite the limited circumstances in which deferred inflows and deferred outflows would apply entities might manipulate arrangements to achieve a desired accounting outcome. Staff considers the risk of manipulation may be exaggerated as the proposed definitions of deferred inflows and

deferred outflows are restricted to non-exchange transactions specified for use in a future reporting period.

Optional recognition of deferred inflows and outflows as elements

22. Respondent 039 commented that the IPSASB could amend IPSASs to permit optional recognition of deferred inflows and deferred outflows as elements. This respondent acknowledged that, although such an approach might be well received in some jurisdictions considering the adoption of IPSASs, it would undermine the stature of IPSASs in fostering international convergence in public sector financial reporting. For these reasons the respondent considered a decision to identify deferred inflows and deferred outflows as elements would have profound implications for the Framework and for IPSASs generally. Staff does not consider adoption of an optional approach to be the best way forward as it would undermine comparability.
23. Staff understands the concerns expressed about introducing the concepts of deferred inflows and outflows making the financial statements more complex and more difficult to understand. It is important for the IPSASB to consider whether the perception of complexity to deal with what, for many entities, would appear to be limited number of transactions is disproportionate and outweighs the benefits.

Adopt approach similar to OCI

24. Respondent 023 suggested using an approach similar to Other Comprehensive Income (OCI) in IFRS to present deferred flows below the net surplus line then, in the Statement of Financial Position, showing funds held for future spending in a separate line under assets and funds to be applied to future spending under liabilities all with appropriate note disclosure. The Framework has not suggested the creation of an approach mirroring or similar to OCI in the public sector. Staff notes that the IASB is seeking to develop principles for attributing items to OCI, but does not think that an OCI-based approach is appropriate for the public sector.

Responses to AVs

25. A number of respondents supported the Alternative Views expressed by Jeanine Poggiolini and Mariano D'Amore (008,014,026,029,031,036,038 and 039) and suggested that the issue of resources earmarked or designated for future periods could, be resolved by taking a presentational approach to flows spanning more than one period rather than the creation of new elements. Respondent (011 suggested that distinguishing "prepayments" from other assets and liabilities would be a better alternative to deferred inflows and outflows. Respondent 015 suggested using Governmental Accounting Standards Board (GASB) Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to consider the use of restricted fund balances for reporting on funds designated for use in specified periods.

Staff view

26. Staff has a preliminary and very tentative view that because of the complexity and subjectivity associated with the application of separate elements inflows and outflows of service potential or economic benefits related to specified future reporting periods might be best addressed through presentational approaches. Staff will explore these issues further, including the approaches in the AVs, in the development of agenda papers for the September meeting.

Specific Matter for Comment 5(b) Restricting Definitions of Deferred Inflows and Deferred Outflows to Non-Exchange Transactions and Seeking Agreement to the Proposed Definitions of Deferred Inflows and Deferred Outflows.

27. The SMC only invited responses from those who agreed with the proposal to define deferred inflows and deferred outflows as elements. Consequently 17 respondents did not provide views. Of those who did, 13 agreed with the decision to restrict the definitions to non-exchange transactions (Respondents 001, 002, 004, 009, 010, 017, 019, 022, 029, 030, 032, 033 and 034) and 10 disagreed (Respondents 003, 006, 008, 011, 012, 014, 015, 020, 021 and 035).
28. Respondent 038 noted that although accounting standards and practices sometimes result in deferred debits and credits being recorded on the statement of financial position, a conceptual framework should contain principles that are transaction neutral and applicable to a range of transactions and events, with necessary departures from the conceptual framework dealt with at standards level. Respondent 007 pointed out that the provision of specific guidance for a group of transactions (e.g. non exchange transactions) in the Framework is not in accordance with a principles-based approach and is contrary to a transaction-neutral approach. Respondent 012 highlighted a number of areas involving exchange transactions where they considered the application of deferred inflows and deferred outflows to be appropriate.
29. Respondent 003 considered that restricting the proposed elements to non-exchange transactions would only partially provide useful information for users of the financial statements. Respondent 007 indicated a need to provide guidance as to when the deferred recognition of revenue and expenses would be appropriate, but suggested that this guidance would be better addressed on a case by case basis at standard level. Staff considers that the definitions of deferred inflows and deferred outflows and accompanying discussion on the principles for their use in paragraphs 5.5 and BC46 are sufficiently clear. Paragraph 5.5 explains that when the specified future reporting period required by the definition occurs, the flows are no longer deferred. At this point a decrease in a deferred inflow would be recognized as revenue and a decrease in a deferred outflow would be recognized as an expense.
30. Paragraph BC45 justified the restriction to non-exchange transactions on the grounds that exchange transactions give rise to revenue, expenses, assets, liabilities, ownership contributions or ownership distributions in the period of the exchange. The IPSASB therefore considered it inappropriate to include these transactions in the definitions of deferred inflows or deferred outflows. A number of respondents appeared unconvinced by this explanation. Respondents 018 and 033 expressed a view that, while the volume and significance of non-exchange transactions are key characteristics of the public sector, the ED does not provide a rationale to explain why it is important that separate elements should be limited to such transactions. Further, staff also notes that while respondent 012 strongly supported deferred inflows and outflows as elements, this respondent did not see the need for the limitation to use in a specific future reporting period. Respondents 012 and 018 noted that the ED does not provide a convincing rationale to limit the use of deferred inflows and deferred outflows to non-exchange transactions.

Matter(s) for Consideration

1. The IPSASB is asked to **note** the analysis of responses to SMC 5(a) and 5 (b), to **consider** staff views, and to **provide a preliminary view** on whether deferred inflows and deferred outflows might be better addressed through presentational approaches rather than as elements.

Specific Matter for Comment 1: Definition of an Asset

31. The proposed definition was “An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.” 20 of those expressing a view, agreed with the proposed definition of an asset (001, 002, 004, 006, 007, 009, 010, 013, 017, 018, 019, 021, 022, 024, 028, 030, 032, 033, 034 and 035). A further 13 (003, 005, 008, 011, 012, 014, 026, 029, 036, 037, 038, 039 and 040) partially agreed and five (015, 020, 023, 025 and 031) disagreed with the proposed definition.”
32. Responses on the definition of an asset included views on the need for and wording of individual components of the definition, each of which is considered in the paragraphs which follow.

Overall approach to definition-broad or narrow

33. Respondent 039 considered that the definition should be broad and (unlike the IPSASB’s proposed definition) should exclude factors that associate the element with an entity, such as control. This respondent considers such factors should form part of the recognition criteria instead. Staff does not have strong views on this issue because regardless of whether these components are in the definition or in recognition criteria the outcome is the same. However, on balance, staff considers it is better to determine whether control exists when determining whether an item meets the definition of an asset rather than do so at the recognition phase. Staff notes that, in developing the definition of an asset, at one point the IASB considered proposing a short but broad definition which excluded factors linking the element with an entity, with such factors as control being dealt with at recognition stage. This approach is in accordance with that proposed by respondent 039. Since then staff notes that the IASB has modified its approach and control is now part of the current draft definition of an asset.

Control

34. Some concern was raised by respondents about the interpretation of the section on ‘an entity presently controls’, suggesting the present wording relating to control requires to be removed from the definition. Respondents 08 and 038 both commented that in paragraph 2.6(b) the discussion of control is very broad and focuses on power without linking it back to the notion of the entity deriving benefits from the resource. Both respondents 08 and 038 suggested rewording 2.6 and combining 2.6 (a) and (b) along the following lines “Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource”. Staff agrees with this proposal.

Contingent assets

35. Respondent 026 stated that the Framework should indicate that assets include contingent assets and note that the accounting treatment of these is to be found in the standards. Staff considers that although contingent assets give rise to recognition issues they do not need to be identified as a separate sub-category of an asset and defined in the Framework.

A resource

36. A number of comments were made in relation to the use of the term “resource” in paragraphs 2.1 and 2.2 (029, 036 and 038). Some suggested that in the definition this term should be prefaced by ‘a right to a’. Others suggested a need to clarify that the benefits can arise from the physical or intangible object itself, or from the rights to the object. Staff agrees that a right to a resource can

give rise to an asset. This is already noted in paragraph 2.2. Staff does not think that “right to” needs to be included in the definition.

Service potential and economic benefit

37. Respondent 039 commented on the inclusion of both service potential and economic benefits in the definition of an asset and the related discussion in paragraphs 2.3-2.5. This respondent questioned the need for both terms, on the grounds that service potential is a subset of economic benefits. Respondent 037 suggested using the term ‘future economic benefits’. Respondent 005 noted the merits of a distinction between locally used terms of administrative assets for service potential and non-administrative assets for economic benefits. Others suggested that both service potential and economic benefits were required in an expanded definition, along the lines of ‘an asset is a right to a resource, controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity or from which service potential is expected to be extracted by the entity in the future’. Staff will consider the need to clarify the relationship between the two terms and these various proposed options for the September meeting. Staff considers that the rationale for retention of both terms remain sound.
38. One respondent (015) expressed the view that the economic benefits or service potential of many items such as monuments, public roads and heritage items do not flow to the entity itself but to citizens and users. Because of this, they suggested that such items do not meet the definition of an asset. As the entity controls the use of the resource which contributes to its ability to provide services in accordance with its objectives. Staff does not agree with these views.
39. Respondent 023 highlighted that a significant portion of property, plant and equipment held in the public sector is for the welfare of citizens as well as for future economic benefits and suggested that the word ‘social’ should be included in the definition to reflect welfare, recreational and charitable objectives. This would give a revised wording in paragraph 2.1 of “A resource, with the ability to provide social or economic benefits that an entity presently controls, and which arises from a probable/an identifiable past event”. Staff believes that the inclusion of the word ‘social’ in the definition would be open to different interpretations and is superfluous as it is already reflected in the notion of service potential. The notion of an inflow of service potential also reflects the operational capacity of entities to meet their objectives by providing services to constituents. Staff considers that this might be brought out more clearly in paragraph 2.3. The issue of probability is a recognition issue related to existence uncertainty and the addition of ‘identifiable’ is also superfluous.

Future inflows

40. As indicated, respondent 037 proposed the need to insert “future” before ‘inflows’ into the definition. Such a revision was also suggested by four other respondents (011, 012, 014 and 025) in order to convey the expectation of future inflows of economic benefits to the entity. Staff does not consider such a revision necessary. Further, staff notes that the latest draft IASB definition refers to “a present economic resource controlled by the entity....” which means that it already reflects the notion of the ability to provide future inflows.

Indicators on ‘an entity presently controls’

41. In the section on ‘an entity presently controls’, paragraph 2.7 provides a number of factors to be considered in determining whether control exists. Confirmation was requested that factors (a) to (d)

do not all need to be satisfied for the criterion of control to be fulfilled. Respondent 011 suggested explicitly stating that legal ownership is not an essential prerequisite of control. Staff notes that paragraph 2.7 states that these factors are indicators, and not conclusive determinants, of whether control exists. Staff does not therefore propose any changes to the wording.

42. Concern was expressed by respondent 008 about 'the ability to deny or restrict access to the resource'. In the view of this respondent application of such an indicator in a public sector context might exclude public roads, parks and public walks from falling within the definition of an asset which would be inappropriate. Alternative wording suggested was 'the ability to deny the transfer of ownership or the rights to ownership' or 'able to regulate the use of the resource'. Respondent 026 considered the control criteria should rely more on a legal or contractual mechanism and considered that the ED needed to be clearer about the treatment of an asset being accounted for by multiple entities where the control is shared between them. Respondents 031 and 039 suggested that a reference to the entity that bears the risks associated with the asset should be added to the indicators of control. Staff notes that an indicator of exposure of the risks and rewards of ownership was not included, because, as explained in BC16, it was not considered compatible with the control approach. Staff will address all of these suggestions for the September meeting.

Past event

43. The need for a reference to a 'past event' in paragraph 2.8 was challenged by several respondents in the definitions of both assets and liabilities. Respondent 003 pointed out that if the resource is controlled by the entity it is an asset. Respondent 039 expressed a view that the identification of a past event is not always required in order for an asset to exist and whether or not an asset exists could be determined by reference to present circumstances. Staff notes that the basis for including reference to a past event is set out in paragraphs BC17-20 and BC27-28. These paragraphs explain that the complex nature of many public sector programs and activities and the number of potential points at which a present obligation might arise means that, although challenging, identification of the key past event is critical in determining when obligations give rise to liabilities in the public sector. Staff continues to hold the view that 'past event' needs to be referred to in the definition. Staff also notes the IASB has now inserted 'past events' into its draft definitions of an asset and a liability rather than considering past events an aspect of existence uncertainty.
44. Several respondents expressed the view that further clarification of terms such as 'ability of the entity' in paragraph 2.6 and 'rights stemming from sovereign power' in paragraph 2.8 and paragraph BC 19, is required under recognition. Staff considers that paragraph 2.8 sets out the different steps in the process of exercising sovereign power and consider more detailed discussion in the Framework beyond that in paragraph 2.8 is inappropriate. Further guidance should be provided with at standards level.

Unconditional rights

45. Paragraph BC6 discussed unconditional rights. Respondent 039 noted that the first two sentences indicate that unconditional rights "may give rise to assets, if the entity has paid for them or if the unconditional right has acquired an identifiable value in an open, active and orderly market". The respondent disagreed with this statement because (a) all unconditional rights that represent service potential or future economic benefits should be identified as assets (whether subsequently recognized or not); and (b) having a cost or strong market evidence of its value is not an essential characteristic of an asset. Respondent 003 expressed concern at stating in the final sentence of

paragraph BC 6 that the identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue, indicating further work is required to provide the necessary conceptual underpinning for later standards-level discussions. Staff acknowledges the need to reconsider the rationale to unconditional rights at the September meeting.

Executory contracts

46. The rationale for not discussing executory contracts in the body of the ED was given in paragraph BC7. Respondent 037 expressed a view that the IASB treats the distinction between conditional and unconditional rights as fundamental to identifying whether assets and liabilities exist. The respondent could not see a public sector rationale for any departure from this principle. In the view of this respondent adherence to this principle would not require consideration of whether contracts are executory and would allow the discussion in paragraph BC7 to be removed. Consistent with the view expressed on unconditional rights Respondent 003 again expressed concern at stating that determining whether the rights and obligations related to executory contracts should be recognized as elements is a standards-level issue. Staff acknowledges the need to reconsider whether the rationale for not addressing executory contracts in the core text rather than the Basis for Conclusions is robust.

Matter(s) for Consideration

2. The IPSASB is asked to **note** the analysis of responses to SMC 1, and to **confirm** whether it agrees with staff views.

Specific Matter for Comment 2 (a) Definition of a Liability and 2(b) Description of Non-Legal Binding Obligations

47. The proposed definition of a liability is “A present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.” Of the 38 respondents who submitted comments 19 agreed with the proposed definition (002, 004, 007, 009, 012, 014, 017, 018, 019, 020, 021, 022, 028, 029, 030, 032, 033, 034 and 040). A further 10 (003, 006, 008, 010, 011, 024, 026, 031, 036 and 039) partially agreed and nine (001, 005, 013, 016, 023, 025, 035, 037 and 038) disagreed with the proposed definition.

Legal or Non-Legal requirement

48. During the development of the ED the IPSASB considered whether liabilities should be limited to legal or equivalent obligations. The IPSASB acknowledged that the application of what have been previously termed constructive obligations has been difficult in the public sector and that restricting liabilities to legal or equivalent obligations would enhance the comparability and understandability of financial information. The ED used the term ‘non-legal binding obligation’ rather than ‘constructive obligation’. This was a cosmetic change intended to reflect the difficulties in interpreting constructive obligations. Regardless of these changes in terminology, the IPSASB decided that to preclude the possibility that liabilities might arise from non-legal obligations might have an adverse impact on faithful representation and relevance.
49. Respondent 039 suggested that the term be amended to ‘non-legally binding’ to avoid any suggestion of illegality. The term ‘other binding’ was also suggested. Staff accepts that the term non-legal could be construed as endorsing illegality and supports the proposal to use either the term ‘non-legally binding obligations’, or ‘other binding obligations’.

50. Paragraph 3.10 provided the attributes of a non-legal binding obligation. Concern was expressed by respondent 026 that the attribute in paragraph 3.10 (a), 'that the entity has indicated to other parties by an established pattern of past practice, published policies or sufficient current public statement that it will accept certain responsibilities', is not helpful in indicating whether an obligation is a liability. Staff notes that this respondent clearly considers that liabilities in the public sector can only arise from legal obligations. Staff remains of the view that the characteristics in paragraph 3.10 are robust.
51. Respondent 028 suggested a liability may arise at the time when claimants meet the eligibility criteria for the service to be provided and when claimants demand that service be delivered. Respondent 035 stated that the ED does not provide an adequate response to a key difficulty in determining the appropriate accounting treatment in defining the triggering event that distinguishes present obligations, which meet the definition of a liability, and potential obligations which may be disclosed in the notes to the accounts. Staff considers that these are largely standards-level considerations. However, as these points might give rise to element uncertainty they will be addressed further for the September meeting.

Little or no realistic alternative to avoid

52. 53. Respondent 025 expressed reservations about the term 'little or no realistic alternative to avoid', in the proposed definition. This respondent considered that this term is open to different interpretations and could be seen as establishing a higher threshold to deal with existence uncertainty for liabilities than the 'expected' ('probable') threshold used by the IASB in the context of liabilities in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. As the IASB uses a 'virtually certain' threshold test in IAS 37 for the recognition of contingent assets, 'little or no realistic alternative' may be seen as being closer to 'virtually certain' than 'expected'. Respondent 031 suggested replacing the term with either 'has no realistic alternative' or 'little or no alternative'. In the view of staff the use of the term 'little or no realistic alternative to avoid' in the definition of a liability was not intended to introduce a threshold of virtual certainty in determining whether a present obligation exists. However, staff acknowledges that this might be an unforeseen consequence. Staff therefore supports using the term 'no realistic alternative to avoid'.
53. Further, staff agrees with respondent 031 that the term 'little or no realistic alternative to avoid' (or no realistic alternative to avoid if adopted) does not need to be in the definition of a liability as it is an attribute of a present obligation. If there is a realistic alternative to avoid an outflow of service potential or economic benefits then there is no present obligation. The phrase is therefore superfluous and the definition can be simplified.

Political and economic coercion

54. Two respondents suggested it might be useful to clarify that enforceability in paragraph 3.7 does not include political coercion since, while a government might feel politically compelled to take a particular action that does not mean a legal obligation exists. Political compulsion is similar to economic coercion, which is discussed in paragraph 3.7. Staff agrees that political coercion does not give rise to legal obligations. The principles that an entity must have a duty or responsibility to another party in order for a liability to exist and that a present obligation does not arise solely because an entity will be compelled to act in its own best interests, apply to the analysis of political compulsion as well as economic coercion. While unlikely, it may be possible that a non-legally

binding obligation arises from political compulsion. Therefore staff considers that a reference to political compulsion might be added in paragraph 3.7.

Provisions

55. Respondent 010 suggested that the definition of a liability in paragraph 3.1 should be broadened to include provisions. Provisions are liabilities of uncertain timing or amount. Provisions meet the definition of a liability because the definition does not preclude obligations where the timing or amount is uncertain. While provisions give rise to recognition issues, staff does not consider that provisions need to be specifically identified in the definition and discussed in the context of liabilities.

Contingent liabilities

56. Respondent 026 stated that the Framework should acknowledge that liabilities include contingent liabilities, indicating they have to be distinguished from anticipations of future losses due to a past event. At standards level, contingent liabilities are not recognized because their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the reporting entity or because they do not meet recognition criteria. Contingent liabilities give rise to presentation issues, but staff does not think that they need to be separately identified as a discrete category and described in the Framework.

Stand-ready obligations

57. Stand-ready obligations are obligations that require an entity to be prepared to fulfill an obligation if a specified uncertain event occurs (or fails to occur). Respondent 037 considered that the definition of a liability should encompass stand ready obligations and commented on being unaware of a need for any differences on this issue between the public and private sectors. Stand-ready obligations were considered in paragraphs BC23 and BC24. It was noted that the notion of a stand-ready obligation does not work well in a public sector non-exchange context where it is very difficult to distinguish a stand-ready obligation from other conditional obligations. The IPSASB was concerned that the use of the term stand-ready obligations could give rise to assumptions about the recognition of liabilities related to the ongoing provision of social benefits. The IPSASB considered that the issue of liabilities arising from social benefits is standards level. Therefore, on balance, the IPSASB decided that the use of the term stand-ready obligations in the Framework would not provide a sound basis for future standard setting. Respondent 039 noted that in April 2013 the IASB has tentatively reassessed its previous tentative decision that only unconditional obligations are liabilities although some unconditional obligations to stand ready to transfer economic benefits if an uncertain future event occurs would be accompanied by conditional obligations to transfer economic benefits. (See also Agenda Item 2.1).
58. Respondent 014 considered that the IPSASB's concern, that obligations to stand-ready to provide social benefits might be inappropriately recognized as liabilities, is a recognition issue which can be ideally addressed in the recognition section of the Framework, or else at a standards level. Respondent 003 also expressed this view. Respondent 037 disagreed with the discussion in paragraph BC24 that the notion of stand-ready obligations does not work well in the public sector and considered that the IPSASB's reluctance to address stand-ready obligations may indicate a wish to avoid any implications for ascertaining the point at which obligations for social benefits give rise to liabilities. Staff acknowledges that this point has some validity. Staff considers that the issue of whether obligations that are dependent on the satisfaction of one or more future conditions that

are outside the control of the entity should be reconsidered. While the prevalence and significance of non-exchange transactions do give difficulties in relation to social benefits staff has strong concerns that the robustness of the current approach is questionable.

Past events

59. As with assets, a number of respondents questioned the need to refer to past event. Respondent 003 noted that if an obligation exists it is a liability and considered how it came to be a liability is not relevant. Respondent 023 suggested 'prior binding commitment' would be a better term than past event. Respondent 039 emphasized the importance of a past event of the reporting entity as an indicator that a liability of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition, while noting that the existence of a past event does not guarantee that a liability continues to qualify for recognition. Staff is of the view that a past event should remain in the definition because, in the public sector, there are a number of points at which a present obligation can arise. As noted above the IASB has now inserted the phrase 'past event' into its definition of both an asset and a liability.

Performance obligations

60. Respondents 014, 031 and 039 expressed concerns about not using the term 'performance obligation' in the framework for the reasons given in paragraph BC26. Respondent 031 disagreed that performance obligations are normally conditional obligations and would depend on the underlying contractual obligations. These respondents also question the implications this will have for convergence with the forthcoming IFRS on Revenue Recognition. It was highlighted that this aspect will be an issue for the IPSASB if and when it revises IPSAS 9, *Revenue from Exchange Transactions*. Staff proposes to look at the issue of performance obligations for the September meeting.

Commitments

61. Respondent 006 pointed out that commitments are not mentioned in the framework although they are very significant in the public sector. The respondent noted, for example, that for multi-year payment schemes subject to specific conditions, compliance with the conditions must be confirmed annually. Amounts still to be paid in respect of future years constitute commitments. Staff agrees it is reasonable to expect some commentary on commitments in the Framework. Staff proposes that it should be clarified in the Basis for Conclusions that commitments for which conditions have not been satisfied by the transferee are not liabilities of the transferor. However, as for provisions, staff does not think that commitments need to be discussed in the body of the Framework.

Sovereign power

62. Several respondents commented that the discussion on sovereign power in paragraph 2.8 is helpful as this is a key difference between the public and private sectors. Staff therefore supports the retention of this paragraph.

Matter(s) for Consideration

3. The IPSASB is asked to **note** the analysis of responses to SMC 2(a) and 2(b), and to **confirm** whether it agrees with staff views.

Specific Matters for Comment 3 and 4 on Definitions of Revenue and Expenses

63. The proposed definition of revenue was “Revenue is :
- (a) Inflows during the current reporting period ,which increases the net assets of an entity, other than
 - (i) Ownership contributions; and
 - (ii) Increases in deferred inflows; and
 - (b) Inflows during the current reporting period that result from decreases in deferred inflows.”
64. Of the 38 respondents who commented on the proposed definition of revenue 10 agreed (001, 002, 004, 010, 020, 028, 030, 032, 033 and 034) and a further six partially agreed (006, 011, 012, 017, 022 and 027) with it. 22 disagreed with the proposed definition (003, 005, 007, 008, 009, 013, 014, 015, 018, 019, 021, 023, 024, 025, 026, 029, 031, 035, 037, 038, 039 and 040).
65. The proposed definition of expenses was “Expenses are:
- (a) Outflows during the current reporting period which decrease the net assets of an entity, other than:
 - (i) Ownership distributions; and
 - (ii) Increases in deferred outflows; and
 - (b) Outflows during the current reporting period that result from decreases in deferred outflows.”
66. Of the 38 respondents who commented on the proposed definition of expenses, 11 agreed (Respondents 001, 002, 004, 010, 017, 020, 028, 030, 032, 033 and 034). A further four partially agreed (Respondents 006, 011, 012 and 022,). 23 respondents disagreed with the proposed definition (Respondents 003, 005, 007, 008, 009, 013, 014, 015, 018, 019, 021, 023, 024, 025, 026, 027, 029, 031, 035, 037, 038, 039 and 040).
67. The definitions of revenue in paragraph 4.1 and expenses in paragraph 4.2 articulated with the definitions of deferred inflows and deferred outflows. Many did not support the proposed definitions of revenue and expenses because they disagreed with deferred inflows and outflows. A decision not to proceed with deferred inflows and deferred outflows would lead to a fundamental modification of the definitions of revenue and expenses.
68. Some respondents believed that revenues and expenses should be determined by an A&L approach. Conversely, respondent 033 supported a definition of revenue and expenses that is restricted to flows relating to the current period, as opposed to the net result of changes in the statement of financial position. Respondent 006 considered that the triggering event for both revenue and expenses should be specified. The triggering point suggested for revenue is as soon as the conditions for exercising the beneficiary’s entitlement have been met. The triggering event suggested for expenses is service rendered on the presumption that all the necessary conditions for establishing the beneficiary’s entitlement have been met. For multi-year schemes with conditions attached, as often found in the public sector, expense recognition would be subject to annual compliance with the conditions. In the view of staff these examples are standards-level, but the comments reflect a view that revenue and expenses are not just dependent on changes in assets and liabilities.

69. Respondent 039 expressed a view that the definitions should reflect all changes in economic resources such as enhancements, not just those that represent inflows or outflows of resources. To accommodate such a change it is necessary to expand the definitions of revenue and expenses to provide for revaluations of assets that are not inflows and outflows of resources. Staff supports modifying the definition to include changes such as enhancements.
70. Respondents 025, 033 and 040 disliked the use of the terms 'revenue' and 'expenses' for public sector entities because they are widely used by profit orientated entities. They would prefer terms such as 'gains', and 'losses'. For similar reasons respondent 025 suggested replacing revenue with 'income' from operating activities (or 'to split income between operational income and non-operational/other income'). Staff considers that "income" is a more profit-oriented term than "revenue" and does not support any change.
71. Another respondent (026) suggested a split between operating revenue and capital revenue, in order to distinguish amounts received for the specific purpose of the acquisition or construction of capital assets where restriction is imposed as a condition by the funds provider from other inflows. Similar comments were made to separate operating expenses from those specifically relating to capital transactions. Respondent 015 proposed that where restrictions are imposed on funds received; these should be accounted for and presented as restricted funds. Staff considers these suggestions can all be addressed by presentation and do not justify any changes to the proposed definitions and discussion.
72. Two respondents (006 and 035) expressed concerns that the definition does not refer explicitly to sovereign revenue, which is the main type of public sector revenue (taxation) and has no private sector equivalent. Staff does not believe there is any need to refer to any particular sources of revenue in the definition.
73. While most respondents acknowledged the need for the reference to ownership contributions in the revenue definition in order to exclude inflows from ownership contributions from revenue a few did not think the concept of ownership contributions is normally relevant. A similar point applies to ownership distributions and expenses. While ownership contributions and ownership distributions may not arise frequently in the public sector, it would be misleading to simply include such contributions and distributions in revenue or expenses. Staff therefore suggests continuing with the present approach of defining ownership contributions and distributions and include references to them in the definitions of revenue and expenses.
74. A number of respondents considered the discussion on financial performance in paragraph 4.7 to be inadequate and recommended a fuller consideration of the impact of deferred inflows and deferred outflows on financial performance. Staff believes amendments to paragraph 4.7 should be considered in September taking into account directions on deferred inflows and outflows. Staff acknowledges that if the definitions of revenue and expenses are revised to reflect revaluations as proposed above in paragraph 69 the current final sentence of paragraph 4.7, which states that "the difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance", is problematic and requires to be given further consideration.

Matter(s) for Consideration

4. The IPSASB is asked to **note** the analysis of responses to SMC 3 and 4, and to **confirm** whether it agrees with staff views.

Specific Matter for Comment 6 Net Assets, Net Financial Position, Ownership Contributions, and Ownership Distributions

75. The ED stated in paragraph 6.1 that net assets is the difference between assets and liabilities. Net financial position is the difference between assets and liabilities after deducting deferred inflows and adding deferred outflows. Neither net assets nor net financial position are elements.
76. SMC 6 (a) asked whether respondents agreed with the terms and descriptions of net assets and net financial position. Of the 38 who responded, 10 agreed (Respondents 001, 002, 004, 010, 011, 012, 014, 025, 032 and 033), 12 partially agreed (003, 008, 013, 018, 019, 024, 029, 030, 031, 035, 037, and 039) and 16 disagreed (Respondents 005, 006, 007, 009, 016, 017, 020, 021, 022, 023, 026, 028, 034, 036, 038 and 040). Most respondents that opposed the description of net financial position also opposed the introduction of deferred inflows and deferred outflows. Respondent 016 commented that the proposed term net financial position is very similar to the term 'net financial worth' used in GFSM 2001 although they mean different things. This could be a source of confusion for users of financial statements prepared in accordance with IPSASs and statistical reports. Staff notes that if deferred inflows and deferred outflows are rejected, the term net financial position would no longer be required. Any confusion with net financial worth is best deferred until after decisions have been made on whether deferred inflows and deferred outflows are to be retained as elements.
77. Respondent 026 suggested that although net assets is a term in common use the Framework should add that, because of the inherent incapacity of the public sector to identify and measure some assets in relation to sovereignty, the concept is incomplete. The issue of sovereign rights is addressed in paragraph 2.8 and includes discussion of when such rights give rise to assets. Staff considers the description of and inclusion of net assets to be valid.
78. SMC 6(b) asked whether respondents agreed with the proposal to define ownership contributions and ownership distributions as elements. 36 expressed views. 21 agreed (Respondents 002, 004, 007, 008, 009, 010, 011, 014, 017, 018, 021, 022, 023, 028, 029, 030, 032, 033, 038, 039 and 040), three partially agreed (Respondents 003, 006 and 020), and 12 disagreed (Respondents 001, 005, 012, 013, 015, 019, 024, 025, 026, 031, 034 and 035). A number expressed the view that, because the term owner or ownership is not normally associated with public sector financial reporting, a different term should be used. Respondent 013 suggested that the use of ownership in the Framework is addressing an atypical situation and requires more discussion. Another suggested that the section be further expanded to help users to better understand the differences between capital and revenue contributions by the government where it is the owner. Staff does not see any reason to expand on paragraphs 6.3-6.7 of the Framework or paragraphs BC49-50.
79. SMC 6 (c) asked whether respondents agreed with the suggested definitions of ownership contributions and ownership distributions. Of the 30 respondents who expressed views 16 agreed (Respondents 002, 007, 010, 014, 017, 018, 021, 022, 028, 029, 030, 032, 033, 038, 039 and 040), five partially agreed (Respondents 003, 009, 011, 012 and 020), and nine disagreed (Respondents 001, 004, 006, 008, 019, 023, 024, 034 and 035). Respondent 004 suggested clarifying the term

'external parties' in the definitions of both ownership contributions (paragraph 6.3) and ownership distributions (paragraph 6.4) to avoid any ambiguity as to their identity and others suggested substituting 'owners' in place of 'external parties'. Staff notes these comments but believes it is clear that "external parties" refers to parties external to the reporting entity and is clearer than owners. Staff therefore considers that no change to the Framework is necessary. Respondent 039 suggested a need to clarify the second sentence of paragraph 6.5 regarding transfer of assets and liabilities between public sector entities for no consideration to avoid confusion on how these transfers would be accounted for and also suggested that the treatment of these transfers should be addressed at a standards level. Staff considers that ownership contributions can arise from the transfer of assets and liabilities between public sector entities for no consideration and proposes that the reference to it should remain. However, the sentence might be clarified. Staff agrees that detailed guidance should be addressed at standards level.

80. SMC 6 (d) asked if ownership interests should be defined in the Framework. Of the 35 that expressed a view, 17 considered that ownership interests should be defined (Respondents 004, 005, 006, 008, 009, 010, 011, 012, 014, 017, 022, 023, 028, 030, 038, 039 and 040), three partially agreed (Respondents 003, 020 and 032) and 15 disagreed (Respondents 001, 002, 007, 013, 018, 019, 021, 024, 025, 026, 029, 031, 033, 034 and 035). Many respondents did not provide supporting comments. Some suggested that ownership interests should be addressed at a standards level. A number felt it was necessary to define ownership interests so to clarify the differences between ownership interests, ownership contributions and ownership distributions. Respondent 014 recommended defining ownership interests as it has economic substance, being ownership claims on the public sector entity's assets. Staff notes all these comments but suggests that for the reasons given in paragraph BC 50 no change is made to the decision not to define ownership interests in the Framework.

Matter(s) for Consideration

5. The IPSASB is asked to **note** the analysis of responses to SMC 6 (a), (b), (c) and (d), and to **confirm** whether it agrees with staff views.

Specific Matter for Comment 7: Discussion on Recognition

81. Section 7 considered the relationship between recognition and disclosure, existence uncertainty, measurement uncertainty and derecognition. Of the 33 respondents who expressed views, 17 agreed with the discussion (002, 004, 005, 007, 010, 011, 012, 017, 018, 019, 021, 022, 024, 028, 030, 032, and 034), six partially agreed (003, 008, 014, 029, 031, 033) and 10 disagreed (006, 009, 013, 015, 016, 020, 035, 037, 038 and 039) and considered that it is not adequately developed. Two respondents (006 and 035) suggested that the definition and identification of the triggering event should be an essential point for the recognition of each element and to identify criteria for recognition of each one. Respondent 008 suggested that the IPSASB consider whether 'past event' should be discussed as a recognition criterion under 'existence uncertainty' rather than as an essential characteristic of the definition of 'asset' and 'liability' but also recommended that the IPSASB aligns its approach with the IASB framework. As indicated previously IASB staff has revised an earlier approach that "control" should be considered a recognition criterion rather than an essential characteristic of the definition of an asset and have also now included past events in the draft definitions of an asset and a liability. Notwithstanding, the IASB deliberations, staff has

previously indicated that identification of a past event is an essential characteristic of an asset and a liability, rather than a factor in recognition.

82. Other respondents noted that while existence uncertainty and measurement uncertainty are discussed as recognition criteria, the discussion does not set out any recognition thresholds or criteria. Staff acknowledges the view that the absence of recognition thresholds may lead to the recognition of elements with low probabilities of occurring. One approach is to acknowledge in the Framework that thresholds to address existence uncertainty may be appropriate, but to defer requirements to the standards level on a case by case basis. Staff understands that such an approach is being considered by the IASB. Staff proposes that the issue of thresholds should be further considered at the September meeting.
83. Respondent 012 commented that while the discussion of measurement uncertainty in paragraph 7.5 addresses relevance and faithful representation, it does not address the other QCs. In the view of staff there should be a general reference to the QCs rather than just references to relevance and faithful representation. Under measurement uncertainty, respondent 039 requested clarification that it is possible, in rare circumstances, such as a legal dispute for unspecified amounts of damages, that no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition. Staff supports this suggestion.
84. Respondent 014 stated it would be useful if recognition criteria or principles for social benefit obligations as liabilities in the statement of financial position are addressed in the framework. As indicated previously this is a standards level issue to be addressed if, and when, the social benefits project is reactivated.

Matter(s) for Consideration

6. The IPSASB is asked to **note** the analysis of responses to SMC 7 and to **confirm** whether it agrees with staff views.

STAFF SUMMARY OF RESPONSES TO CONCEPTUAL FRAMEWORK EXPOSURE DRAFT 2, CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

Note: This paper includes extracts of each response received to the ED which have been grouped to identify respondents' views on the Specific Matters for Comment (SMCs) set out in the ED as well as the key issues identified by staff. In some cases, an extract may not do justice to the full response. This analysis should therefore be read in conjunction with the submissions themselves.

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List of Respondents:

Response #	Respondent Name	Country	Function
001	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)	USA	Preparer
002	Wellington City Council	New Zealand	Preparer
003	Victoria University of Wellington	New Zealand	Preparer
004	The Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
005	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
006	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
007	Fédération des Experts Comptables Européens (FEE)	International	Member or Regional Body
008	New Zealand Accounting Standards Board (XRB)	New Zealand	Standard Setter/Standards Advisory Body
009	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
010	Association of Chartered Certified Accountants (ACCA)	International	Member or Regional Body
011	KPMG IFRG Limited	International	Accountancy Firm
012	Governmental Accounting Standards Board (GASB)	USA	Standard Setter/Standards Advisory Body
013	The Institute of Internal Auditors	USA	Member or Regional Body
014	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
015	Instituut van de Bedrijfsrevisoren Institut des Reviseurs d'Entreprises (IBR-IRE)	Belgium	Member or Regional Body
016	International Monetary Fund	International	Other
017	Swedish National Financial Management Authority (ESV)	Sweden	Standard Setter/Standards Advisory Body
018	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
019	Province of Manitoba	Canada	Preparer
020	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

Response #	Respondent Name	Country	Function
021	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
022	Office of the Auditor General of Canada	Canada	Audit Office
023	The Institute of Chartered Accountants of Jamaica (ICAJ)	Jamaica	Member or Regional Body
024	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
025	Abu Dhabi Accountability Authority (ADAA)	United Arab Emirates	Audit Office
026	Cour des Comptes	France	Audit Office
027	Graeme Hall-Watson	Australia	Other
028	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
029	Task Force on Accounting Standards, United Nations System	International	Preparer
030	Wales Audit Office	UK	Audit Office
031	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
032	Denise Silva Ferreira Juvenal	Brazil	Other
033	Ministry of Finance of Ontario	Canada	Preparer
034	Malaysian Institute of Accountants	Malaysia	Member or Regional Body
035	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
036	European Commission	Europe	Preparer
037	Joint Accounting Bodies (CPA Australia, and Institute of Chartered Accountants Australia)	Australia	Member or Regional Body
038	Ernst & Young	International	Accountancy Firm
039	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
040	The Committee on Accounting for Public Benefit Entities (CAPE) of the Financial Reporting Council (FRC)	UK	Standard Setter/Standards Advisory Board

General Comments on the ED:

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
001	<p>The ED proposes definitions of elements used in general purpose financial statements of governments and other public sector entities. The elements are specified in paragraph 1.4 of the ED as Assets, Liabilities, Revenues, Expenses, Deferred Inflows, Deferred Outflows, Ownership Contributions and Ownership Distributions. The FMSB has reviewed the ED as well as the additional sections entitled Basis for Conclusions and Alternative Views. The FMSB agrees with most of the definitions proposed by the IPSASB's for the elements specified in paragraph 1.4 of the ED. However we have some concerns regarding part of the proposed definition for liabilities and we do not agree that Ownership Contributions and Ownership Distributions should be defined as elements. Our concerns are expressed in our answers to the Specific Matters for Comment that follows.</p>	<p>See Agenda Paper 2A.1 for discussion on liabilities, ownership contributions and ownership distributions.</p>
002	<p><i>No general comments noted.</i></p>	
003	<p>We are encouraged by the progress that the International Public Sector Accounting Standards Board (IPSASB) is making towards a full conceptual framework to underpin the standards issued by the Board. As you will note from the below comments, we are generally in agreement with the tenor of the Exposure Draft. However, we do not agree with the decision to define deferred inflows and deferred outflows as elements. We provide the reasons for this in specific matter for comment 5 below. We encourage the IPSASB to reflect on these arguments and to revisit their decision not to use presentation as a method to deal with issues such as non-exchange transactions that span multiple periods. We believe a presentational approach would be more helpful to users and would minimize differences across the sectors in the accounting methods employed.</p> <p>We note that the International Accounting Standards Board (IASB) has also re-started its Conceptual Framework project and encourage the IPSASB to reconsider its Exposure Draft in the light of the IASB project. We think the definitions of elements should be aligned as far as possible with the IASB, but we accept that some difference may be necessary if the IASB defines the elements more narrowly than would be appropriate in the public sector environment.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
003.1	<p>We note with concern the number of times IPSASB discusses an issue in the Basis for Conclusions and concludes that the matter will be addressed at standards-level. Our concern is that the purpose of a conceptual framework is to provide guidance on how issues will be addressed at standards level. We interpret the discussion on these matters (e.g. at BC6, BC7., BC22. and BC24.) as confirming that the concepts developed to date do not provide the necessary guidance to assist the standard-setter at the standards-level. That being the case the necessary concepts will presumably be developed when standards are developed. We think IPSASB needs to do further work on at least some of these issues to provide the necessary conceptual underpinnings for later standards-</p>	<p>See Agenda Paper 2A.1 for discussion on approach to be taken on guidance. .</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>level decisions.</p> <p>We are strongly of the view that because of the fundamental nature of the attempted focus on current year activities and the consequent proposal to introduce the two new elements and that there are still so many unresolved issues in developing these ideas, a further exposure draft should be issued after the ideas have been developed further. This view is held whether or not IPSASB accepts our view that such new elements are not necessary and that a presentation approach should be taken to communicating the current year focus, or if the deferred elements are retained and developed more fully.</p>	<p>IPSASB to decide on suggestion of further ED</p>
004	<p>The Institute is particularly pleased to note the increased attention by the International Public Sector Accounting Standards Board (IPSASB) being paid to development of more transparent and wider acceptable accounting standards for the public sector, particularly at this time when concerns are growing for a more robust system and standards of accounting in the public sector across the world.</p>	<p>Noted</p>
005	<p>The SRS-CSPCP finds the Exposure Draft to be considerably more comprehensible than the preceding Consultation Paper. But the question arises why new elements, such as deferred outflows, deferred inflows, ownership contributions and ownership distributions appear and what weighting is attributed to them. The IPSASB does not comment on this, which is regrettable. The SRS-CSPCP is of the opinion that in Section 1.4. Items e) to h) are not to be defined as elements, because they do not have the same significance in accounting and therefore for financial statements as the elements mentioned in items a) to d). Equity should be added to the list of elements, as new item c) between Assets/Liabilities and Expenses/Revenues. The definitions of Assets and Liabilities must be widened in order that deferred inflows and deferred outflows can be included into them.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
006	<p>As a preliminary comment, the Council notes that the status of the Conceptual Framework is unclear. Therefore it suggests to specify in the introduction that the Conceptual Framework doesn't have authority over the Standards.</p> <p>The Council is satisfied that the Exposure Draft takes into account some of the comments made in its 9 June 2011 response to the Consultation Paper. It particularly welcomes that the non-commercial nature of the public sector service is clearly identified, and is introduced within the elements of the definition of service potential. It also notes that deferred inflows and deferred outflows are defined as separate elements.</p> <p>However, it considers that the IPSAS Board didn't draw all the consequences of the public sector specificities. In that respect, the Council would appreciate promoting an approach based on economic inflows and outflows. The rationale for this approach being that budget surplus/deficit and accounting surplus/deficit must be consistent, based on a linkage between the budget accounting system and the general-purpose accounting system, seeking to create simple relations between</p>	<p>For decision by the IPSASB.</p> <p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on approach to be taken on this suggestion.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>these two systems, main resources arise from sovereign revenue and there is no systematic relationship between income and expenditure.</p> <p>A regards liabilities, the Council believes that obligations that result from legal provisions ("legal binding obligations") should not be placed on the same footing as those that do not ("non-legal binding obligations"). Only the former ("legal binding obligations") should give rise to recognition of a liability, because the Central Government or public entity cannot avoid these obligations due to laws or regulations in force.</p> <p>As regards "non-legal binding obligations", the Council disagrees with the proposed definition, as this notion is not precisely defined. It seems to include potential commitments, the scope of which is insufficiently described. The Council is of the view that the three criteria for recognition should be cumulative, in order to limit the impact of such obligations.</p> <p>As already pointed out in the comments made to the former consultations, the Council is not in favor of issuing a comprehensive document that would include reporting on the Long-Term Fiscal Sustainability of Public Finances at macro-economic level. The "non-legal binding obligations" could usefully fall into the scope of this report, which would provide figures on the sustainability of public programs and public policies. But, as above-mentioned, the Council believes that this information belongs to a separate process outside the area of standard setting accounting.</p> <p>Finally, the Council notes that the notion of triggering event is insufficiently addressed. However, that notion is of utmost importance in the public sector, given the weight of non-exchange transactions, and it enables to distinguish liabilities that should be recognized, from commitments that are disclosed in the Notes. The Council regrets the lack of analysis dedicated to commitments, and would appreciate that the Exposure Draft be completed accordingly.</p>	<p>See Agenda Paper 2A.1 for discussion on liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on liabilities.</p> <p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on liabilities.</p>
007	<p>As highlighted in previous comments, FEE strongly supports the Board's intention to finalize the Conceptual Framework with a high priority, as the development of the existing standards and many proposals for future standards depend on its finalization. This would also help the Board to streamline its standard setting activity in the future, whether setting new standards on public sector specific issues or updating IFRS converged standards.</p> <p>We also support the Board's intention to maintain the alignment of IPSASs with IFRSs on matters which are common to both to private and public sectors. However, as rightly pointed out in the Consultation, the development of the Conceptual Framework should not be an IFRS convergence project and therefore not an interpretation of the application of the IASB Conceptual Framework to the public sector. Nevertheless, it is not desirable for there to be conceptual differences unless driven by specifics of the public sector.</p>	<p>Noted</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>

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	<p>We agree with most of the elements proposed by the ED, however, we do not support the proposal to identify and recognize deferred inflows and outflows as separate elements at the conceptual framework level. Instead, we believe that any appropriate deferral of revenue recognition and expenses recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.</p> <p>Further FEE responses to the detailed questions of the ED are included in the Appendix to this letter.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
008	<p>General Comments</p> <p>The NZASB compliments the International Public Sector Accounting Standards Board (IPSASB) on its leadership and progress in developing a Conceptual Framework (Framework) for general purpose financial reporting by public sector entities.</p> <p>The development of this Framework is extremely important to New Zealand given the External Reporting Board's (XRB) decision to base its accounting standards for public benefit entities (which comprise public sector entities and "private" not-for-profit entities) on International Public Sector Accounting Standards (IPSASs). As such, it is critical to us that the Framework that underlies IPSASs is conceptually robust, coherent and appropriate for public sector entities in New Zealand.</p> <p>We note that the International Accounting Standards Board (IASB) has recently recommenced its work on a conceptual framework for for-profit entities. We encourage the IPSASB and the IASB to work closely together in developing their conceptual frameworks as the two Boards are likely to be considering similar issues. We consider that the development of the conceptual frameworks, particularly in relation to elements and recognition, is too important for the two Boards to be working independently of each other. Ideally, the IPSASB and IASB Frameworks should only contain different concepts that result from sectoral differences.</p> <p>Specific Comments</p> <p>The NZASB's main concern with the ED relates to the proposal to define deferred inflows and deferred outflows as elements and the consequential impact of this proposal on other aspects of the proposed Framework. Our concerns with the proposal to define deferred inflows and deferred outflows as elements are summarized below. We discuss our concerns in greater detail in Specific Matter for Comment 5.</p> <p><i>Proposal to define deferred inflows and deferred outflows as elements</i></p> <p>The NZASB appreciates that, in proposing to define deferred inflows and deferred outflows as separate elements, the IPSASB is attempting to solve a common and fundamental problem in the public sector. We acknowledge the IPSASB's attempt to ensure that public sector entity financial</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB project.</p>

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	<p>statements portray transactions, such as multi-year grants, in a meaningful manner.</p> <p>However, we strongly disagree with the IPSASB's proposal to define deferred inflows and deferred outflows as elements. In our view, elements in financial statements should represent "real-world" economic phenomena. Deferred inflows and deferred outflows do not represent real-world economic phenomena but are merely accounting constructs. We consider that a Framework should not elevate such accounting constructs to the status of elements.</p> <p>We consider that general purpose financial reports (GPFRs) and financial statements should include both financial and non-financial information to faithfully represent the activities of an entity, that is, the information should inter-relate to "tell the story" of the entity. The proposed approach appears to use non-financial information as the primary determinant of the financial information that is recognized in financial statements. In our view, the proposal creates confusion about the objectives of the Statement of Financial Position and the Statement of Financial Performance and the information they are intended to impart. The proposed concept of "net financial position" is confusing and the intended meaning of financial performance is now unclear.</p> <p>The IPSASB's rationale, as stated in paragraph BC40, is to show separately flows that relate to specified future reporting periods, rather than including them in the Statement of Financial Performance of the current reporting period. Restricting the deferred flows to non-exchange transactions with one form of time-based restrictions makes the concept underlying deferred flows unclear when assessed against the stated rationale. The completeness and usefulness of such "current period" information is questionable.</p> <p>We consider that deferred flow information would be better imparted through a presentational approach. That is, user-needs would be better served through presentation of the relevant financial and non-financial information in a separate statement or as a separate section of the primary financial statements detailing such flows. In this regard, we consider the IPSASB has not provided a robust enough reason for dismissing a presentational approach and we support the alternative view of Ms. Jeanine Poggiolini as set out in the ED.</p> <p>If the IPSASB proceeds with the proposal to recognize deferred inflows and deferred outflows as elements, the Basis for Conclusions should contain a clearer discussion of the problem that the proposal is trying to solve, together with a more robust and conceptual basis for why and how, for public sector entities, the proposed approach:</p> <ul style="list-style-type: none"> • better meets the objectives of general purpose financial reporting; • better meets the needs of users; and • meets the qualitative characteristics of the information that is presented in GPFRs. 	<p>See Agenda Paper 2.A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on net financial position as a consequence of deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

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008.1	<p>A Framework should contain conceptual ideals that standards (and practices) can strive towards. It should provide guidance on how issues will be dealt with at the standards level, with any departures from the concepts at the standards-level being appropriately justified.</p> <p>Given that the major issues in the public sector (as distinct from the for-profit sector) relate to the power to tax and social policy obligations, we consider that the Framework should contain a discussion of, and provide a basis for, identifying the appropriate approach to accounting for, these issues.</p> <p>We note the statement in paragraph 4.7 of the ED that the surplus/deficit for the period (as currently defined) "is the primary indicator of financial performance." We consider that the Framework should contain a fuller discussion of the nature of financial performance, including operating surpluses, and what measure of operating surplus (or deficit) is meaningful for the management of public finances. This could include a discussion on whether gains or losses in assets arising from revaluations are qualitatively different in nature from gains and losses from actual flows of resources in and out of entities.</p>	<p>For consideration by the IPSASB</p>
009	<p><i>The respondent included a detailed list of general comments by paragraph as an appendix to the response. See response 009, pg. 7–9 for full details.</i></p>	
010	<p>ACCA is supportive of the development of a conceptual framework for public sector accounting standards as set out in our previous correspondence. We also welcome the IPSASB making the completion of the framework a priority in 2013/14.</p> <p>On the whole we agree with the definitions and terms set out in the Exposure Draft (ED) with one suggestion for improvement as highlighted in specific comment 2.</p>	<p>Noted</p>
011	<p><i>No general comments noted.</i></p>	
012	<p>We strongly support the development of a conceptual framework and encourage the IPSASB to continue its efforts to complete its conceptual framework. Concepts provide the basis for guiding the IPSASB in development of accounting standards that are internally consistent and best promote the objectives of financial reporting. Additionally, concepts can provide useful contextual information for users of financial statements and provide broad guidance for preparers of financial statements in circumstances in which standards do not address the transactions being reported.</p>	<p>Noted</p>
012.1	<p>We generally agree with the discussion when rights and powers of government give rise to assets in paragraph 2.8. However, we believe that additional clarity should be provided. The nature of the right described in (c) is unclear. Does it refer to for example, the right to issue licenses or to the right to receive tax proceeds (a receivable)? The concluding sentence does not clearly refer to any of the</p>	

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	potential recognition points (a) through (d). We inferred that recognition of an asset would not occur until all of the events, as applicable, have occurred.	To be clarified
013	<p>In formulating our observations, we recognize that defining terms that have global acceptance is a difficult challenge. Although specific comments are provided in the attached document, the following summarizes our principal observations:</p> <ol style="list-style-type: none"> 1. It is our assumption the framework's focus is on non-profit oriented entities/activities within the government; therefore, it is our collective assessment that the term "ownership" would not be well understood and should not be included in the framework. 2. In an effort to ensure global acceptance of the framework, we recommend the concept of deferred inflows and outflows that are not universally encountered in practice be removed or explained in more detail. 3. We are in support of and in agreement with all the "Specific Matters for Comment" referenced in ED 3. <p>For points 1 and 2 above, we welcome an opportunity for further discussion to improve the framework.</p>	<p>See Agenda Paper 2A.1 for discussion on ownership contributions and ownership distributions.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
014	<p>While the different views relate principally to Specific Matter for Comment 5 and have been outlined that area, these differences also impact Specific Matters for Comment 3, 4 and 6. The comments set this submission which reflect the view of the majority of the Australian members of ACAG are titled 'view', with a 'Divergent view' within Specific Matter for Comment 5 reflecting the view of two members. The opportunity to comment is appreciated and I trust you will find the attached comments useful.</p>	Noted
014.1	<p>ACAG recommends that the Conceptual Framework provide additional emphasis on the significance of materiality based on the context and nature of an item because this is likely to be of particular importance for public sector entities.</p> <p>In order to assist preparers, auditors and end-users, ACAG suggests that further discussion, examples and/or guidance be included in the Conceptual Framework on each of the elements of the financial statements.</p> <p>ACAG supports the IPSASB's strategy of maintaining the alignment of IPSASs with IFRSs as appropriate for the public sector. The IPSASB should monitor closely the developments in the Conceptual Framework project to see if these can be applied or adapted in the IPSASB project. We believe that various bodies such as the European Financial Reporting Advisory Group (EFRAG) are already contributing on the subject by issuing bulletins on various topics. Therefore, we believe that the IPSASB should not finalize its Framework until the IASB Conceptual Framework project has been completed.</p>	<p>For consideration by the IPSASB</p> <p>For consideration by the IPSASB.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
015	The conceptual framework should be established based on user-need accounting research. The d	Noted

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	ED's are set up in an imposing way, without preceding user orientedness. The ED lacks a number of examples, which can improve their readability and understandability.	IPSASB decided not to include examples in ED
016	Our comments on specific issues are set out below. A common theme of these comments is that t would benefit from more in-depth discussion on important and complex issues. The discussion include appropriate examples of the application of the concepts and principles proposed. appropriate, the discussion should also be explicit about the implications of the concepts pro particularly where these involve any change from current principles, standards, and practice.	For consideration by the IPSASB
016.1	We would suggest that the ED discuss the concept of financial performance of the public sector in a broader context. The ED does not discuss the important issues of what constitutes financial performance in the public sector and how it should be measured or assessed, other than to simply note that the difference between revenues and expenses is the entity's surplus or deficit for the period and this is the primary indicator of financial performance. This would appear to be a somewhat narrow and, in certain circumstances, inappropriate view of public sector financial performance. For example, the ED's exclusive focus on surplus or deficit would imply that if a government, at a consolidated level, had a surplus in one year, followed by a smaller surplus or a deficit in the next year, the financial performance of the government in the second year would be regarded as worse than that of the first year. However, the smaller surplus or the deficit may be caused by lower revenues and higher expenses (e.g., unemployment benefits) due to factors outside the control of the government in a period of economic downturn and not due to worse performance by the government. The lower surplus or the deficit could also be the result of deliberate policies and actions by the government to stimulate the economy in the midst of a recession. Under such circumstances, it would be misleading to conclude that the government's financial performance has deteriorated, particularly if there are indications that the government's policies have led to better economic outcomes such as higher growth and/or lower unemployment. We therefore believe that conceptual framework should avoid taking an overly technical and narrow view of public sector financial performance and acknowledge that a government's financial performance has to be viewed in a broader context than that of a private sector entity and provide guidance on issues in addition to the surplus or deficit that should be taken into account in assessing such performance.	For consideration by the IPSASB
017	<i>No general comments noted.</i>	
018	As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs. A key element of this is the development of a public sector Conceptual Framework, which will aid both IFRS	Noted

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>converged development and freestanding development of standards on public sector matters.</p> <p>Concern over inclusion of deferred flows as Elements</p> <p>CIPFA disagrees with the proposal that deferred inflows and deferred outflows should be included in the list of Elements. Especially given the proposal that these should be used to calculate a measure of financial position, and should be a modification of the measure of position provided by net assets.</p> <p>Our principal concern is that this places too much emphasis of deferral issues.</p> <p>We also consider that it overcomplicates the presentation of the entity's position, making the financial statements less readable and less understandable. A further reduction in clarity occurs when the consequences for the revenue and expenses are considered.</p> <p>We commented on deferrals in our response to the IPSASB Consultation Paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</i> which was issued in December 2010. In that response we explained that deferral information may often be relevant information, which should be brought to the attention of readers of financial reports, perhaps through narrative reporting. We did not consider such deferrals to be elements of financial statements applicable in an international context. CIPFA's position is essentially unchanged on this matter.</p> <p>We note that the Exposure Draft reduces the potential scope of deferrals by requiring that they arise from non-exchange transactions. This might be seen as preserving the IPSASB Conceptual Framework's alignment with the asset and liability and revenue and expenses position arising under the IASB framework. However, while we agree that non-exchange transactions are a distinctive feature of the public sector, the ED does not provide a rationale to explain why it is important that additional accounting should apply for these items, or indeed, if such additional reporting is helpful, why it should not apply more widely to exchange transactions.</p> <p>The ED states at BC 40 that "Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes." While we would agree that this information can be useful, and may be interesting to some stakeholders in some jurisdictions, the proposals seem to make this information the primary feature of the statement of position, elevating certain types of accountability above reporting on economic substance. Inasmuch as there is a requirement for additional explanation, in our view this would be best satisfied through additional disclosure.</p> <p>Some may consider that the economic position arising under current standards and consistent with that set out under the current definitions of assets and liabilities is not the most faithful or useful representation. We have some sympathy for this viewpoint, but inasmuch as it might be appropriate to develop a revised statement of position incorporating deferrals adjustment, we</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>For consideration by the IPSASB</p>

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	<p>suggest this would need to be done carefully and with full consultation on this specific issue. We would not expect this to require a definition of deferrals as specific element: this could be progressed by reference to existing elements grounded in control.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
019	<p>The Province of Manitoba does not support <i>Exposure Draft 2 – Elements and Recognition in Financial Statements</i>. The Province does agree with most aspects of IPSASB's conceptual framework; however we strongly disagree with the definition of revenue and expenses.</p> <p>The ED defines revenue and expenses to include all increases and decreases in net assets other than ownership contributions, ownership distributions, deferred inflows, and deferred outflows. As such, revenue and expenses would include increases and decreases in net assets that arise from exchange and non-exchange transactions, other events such as price changes, the consumption of assets through depreciation and erosion of service potential, and <u>unrealized increases and decreases in the value of assets and/or liabilities</u>.</p> <p><i>ED 3 – Measurement of Assets and Liabilities in Financial Statements</i> lacks specific criteria for determining the appropriate measurement basis to apply for a specific situation. The Province feels that it is likely that future IPSAS will recommend or permit the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards. Under IPSASB's conceptual framework unrealized gains and losses would be included as revenue and expenses thereby affecting the net results from operations for the accounting period.</p> <p>The introduction to IPSASB's conceptual framework was finalized in January 2013. IPSASB has identified the objectives of financial reporting by public sector entities to be providing information that is useful to the users of financial statements for accountability and decision making purposes. As part of accountability, governments and other public sector entities prepare, approve and make publicly available an annual budget. Financial statements provide information to users in assessing the extent to which the financial results has met its budget objectives.</p> <p>If the EDs are approved as currently written it will become increasingly difficult for users to understand and compare the reported results in the financial statements against voted budgets which are prepared on a different basis from the financial statements. Summary budgets for most senior Canadian governments are aligned with the basis upon which financial reports are prepared. The Province is concerned with the potential erosion to transparency and accountability in public sector reporting when information is not presented in a clear and understandable way to the general public and their elected representatives.</p> <p>The difficulty to budget for future unrealized gains and losses makes the IPSASB's proposed model for financial statements to be challenging at best, and likely to create further misalignment between fiscal accountability and financial reporting frameworks.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of revenue and expenses.</p> <p>See Agenda Paper 2A.1 for discussion on definition of revenue and expenses.</p> <p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on definition of revenue and expenses.</p>

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020	<p>We remain unconvinced that there is any real justification for there to be differences between the private and public sectors in respect of this Phase of the CF. Therefore, whilst we generally believe the proposals in the ED are not problematical from a technical standpoint, we would like to re-affirm our previously stated views as to need to ensure appropriate liaison with IASB. Notwithstanding the IPSASB's intention that the CF Project is not a convergence project, we do not believe the IPSASB should finalize its CF in its entirety without having achieved an appropriate degree of consensus with the IASB on key aspects. At the time the IPSASB commenced its work the IASB Project had been deferred. At the present time, however, the IASB has reactivated its own project and accelerated its work in this area, and we firmly believe that the IPSASB should consider delaying finalization of the CF to this end.</p> <p>In this context, we would challenge the underlying presumption that deferred items and contributions from and distributions to owners represent public sector specific matters justifying different treatment from the private sector. We explain our reasoning and views in more detail subsequently in this letter where we have responded to the individual specific matters for comment (SMCs).</p> <p>We further believe that the IPSASB needs to clarify to its constituents how this Phase of the CF will interact with the other Phases of the CF and, in particular, with Phase 4 "Presentation", which will deal with presentation techniques including decisions on information selection within a report. We note that the IASB decided to abandon a phased approach in taking its own work forward. Indeed allowing the necessary time to deal with the interactions of the four Phases would also provide an opportunity for further liaison with the IASB as suggested above.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows, deferred outflows, ownership contributions and ownership distributions.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
021	<i>No general comments noted.</i>	
022	<p>The exposure draft proposes definitions of elements used in general purpose financial statements of governments and other public sector entities, and provides further explanation about these definitions. We are in general agreement with the proposed definitions, but would like to signal our concern about the proposed introduction of deferred inflows and deferred outflows as elements of the framework.</p> <p>Deferred inflows and outflows are not traditionally elements of a conceptual framework founded on an Asset and Liability model, but are instead based on a Revenue and Expense model. A critical issue with the Revenue and Expense model is the difficulty in developing a solid, objective basis for deferring revenue and expenses. Consequently, on balance our Office prefers a conceptual framework based on the Asset and Liability model because it is logical, defensible, and addresses qualitative characteristics of financial information that are important to users.</p>	<p>See Agenda Paper 2A.1 for discussion on</p>

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		deferred inflows and deferred outflows.
023	<i>No general comments noted.</i>	
024	<p>We strongly supports the IPSASB's plan to finalize the Conceptual Framework project, as it will provide a framework for the consistent and comparable preparation and presentation of financial statement discussion and analysis in public sector entities' financial statements.</p> <p>The Institute deliberated the ED and generally agrees with the proposed elements; however we do not fully support the new elements introduced, such as deferred outflows, deferred inflows, ownership contributions and ownership distributions. We are of the view that the new proposed elements should be part of the existing five elements.</p>	<p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
025	<p>One of the most significant issues we find is inconsistent interpretation of accounting standards by the accounting community. We therefore encourage all accounting standard setters to use, wherever possible, consistent language in determining accounting definitions. This should ensure that assets and liabilities are consistently identified and reported.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
026	<p>It notes, as a preliminary comment, that the IPSAS Board has made a significant effort in the improvement of the previous concepts and contents, which were submitted to discussion at the earlier stage in the consultation paper issued in 2010.</p> <p>The Cour des Comptes welcomes the assessment that the IPSAS conceptual framework is not an IFRS convergence project, neither that it has the purpose to apply an interpretation of the IASB Framework to the public sector. This assessment expresses that public sector specificities must be considered, especially at the conceptual framework level.</p> <p>However, in spite of efforts to clarify and give examples, the ED displays some positions that have to be amended.</p> <p>The most important areas of disagreement deal with the following elements:</p> <p>A) On the assets definition : the control criteria should rely more on a legal or contractual dimension, including property or disposal rights, and be clearer on the eventuality of a same asset being accounted for by multiple entities when the control is discussed between them.</p> <p>B) The Cour des Comptes does not agree with the inclusion of "non-legal binding obligations" as element of the liabilities at the conceptual framework level.</p> <p>The ED introduces controversial criteria such as "valid expectations from the beneficiaries", which is irrelevant in the public sector (unlike in the private companies, where this concept makes sense), especially in those jurisdictions where relations between the public sector and other economic</p>	<p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on definition of assets.</p> <p>See Agenda Paper 2A.1 for discussion on liabilities.</p>

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	<p>sectors (enterprises, menages) are submitted to imperative written laws and regulations.</p> <p>Liabilities should, as stated in previous answers, be in priority based on legal binding obligations under the present rules or contracts, with anticipations of future losses and contingent liabilities specificities to be treated at the standard level, and not at the conceptual framework level.</p> <p>C) The Cour des Comptes expresses its disagreement on the elements described as “deferred inflows or outflows” to be distinguished from assets and liabilities. Even if they are restricted to “non-exchange transactions”, it remains difficult to understand why these items are given such a status at the conceptual framework level. The treatment of future revenues or expenses as a consequence of a former resource received or given seems more to be relevant of the standard level.</p> <p>For the Cour des comptes, funds received by an entity, dedicated to a future investment, with a stipulation for a multiyear period of use, have to be recognized as liabilities, and, afterwards, transferred, pro rata, as revenues in the coming years. If those funds are clearly dedicated to support current operations, they have to be considered as revenues. But the appreciation of these operations is to be done on a case by case basis, since they are very heterogeneous, and their accounting treatment should be defined in the standards.</p>	<p>See Agenda Paper 2A.1 for discussion on liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
027	<p>I have had 22 years as a corporate accountant in the private sector and the for the last 18 years I have specialized in financial reporting and budgeting in the public sector, most significantly in local government. Since Australia introduced accrual accounting into this sector in 1994, the issue of financial reporting on sustainability through the maintenance of the entity's physical operating capability, has been the focus I have pursued. Many Queensland local governments have adopted this reporting framework.</p> <p>The measurement of and the reporting on the physical operating capability has not been recognized in the submissions I have read to date. The ability of a public sector entity to deliver services to the community on a perpetual basis relies on its ability to maintain to its physical operating capability at a financially sustainable level.</p> <p>While the IPSASB correctly seeks to identify and measure the value of assets and liabilities, the components of equity do not get a mention. The attached discussion paper that I have written seeks to bring the components of equity into focus as an important element of reporting on the financial performance and sustainability of the entity.</p> <p>When considering the maintenance of the physical operating capability, it is important to report on whether the opening value has been maintained at the end of the reporting period. The measurement of this is found in the net operating result. I would suggest that in adopting this framework, a profit has not been made unless the physical operating capability at the end of the period has been maintained. My discussion paper goes into this in more detail.</p> <p>Within the public sector and in particular local government, there are elements of current period</p>	<p>Noted</p>

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	<p>revenue and expenses that have no or little relevance in the measurement of the financial performance in the reporting period, but do impact on the ability to maintain the financial performance in future periods. These are items of capital income and capital expenditure as described in my paper.</p> <p>While all enterprises seek to be financially successful, the measurement of this outcome should be seen as fundamentally different for the stake holders. For those in the public sector the indicators of financial sustainability at all levels of government are different from the private sector. The community, whether it be at national, state or at local government level, require financial reports that clearly identify whether the elected representatives are administering their responsibilities to perpetually deliver services to the community they represent. Simply recognizing all revenue and expenses in the statement of financial performance, without identifying the operating component or elements, fails this test.</p>	<p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p>
028	<p>We believe that the statement on deferred inflows and outflows should come immediately after the explanation about assets and liabilities in the CF-ED2. Then, details on revenue and expenses should be provided, as revenue and expenses contain deferred inflows and outflows in their definitions.</p>	<p>Noted but IPSASB chose order to avoid any focus on asset and liability –led or revenue and expenses-led.</p>
029	<p>We support IPSASB's efforts in developing the Conceptual Framework, which establishes parameters for financial reporting under IPSAS and clarifies concepts not previously explicitly covered by the Standards. We note, however, that discussion in the CF-ED2, including majority of examples, focuses mainly on specific attributes and challenges of governments, making it less useful and applicable for use by other public sector entities.</p>	<p>For consideration by the IPSASB</p>
030	<p>We are fully supportive of the development by IPSASB of a conceptual framework to underpin the development of a comprehensive and high quality suite of financial reporting standards for the public sector.</p> <p>We welcome the next stage of the development of the conceptual framework including the statement in Paragraph 1.1 that the Exposure Draft proposes definitions of elements to be used only for general purpose financial statements. We consider that IPSASB should focus initially on financial statements before addressing the other aspects of financial reporting (such as prospective financial information) that are covered by the conceptual framework.</p> <p>While we support the vast majority of proposals in the ED we do not agree with the proposal that deferred inflows and deferred outflows should be included in the list of elements. We would prefer an approach where deferrals are recognized only where they meet the definition of an asset or liability, and are treated as assets or liabilities as appropriate.</p>	<p>Noted</p> <p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
031	<p>HoTARAC notes that significant progress has been made since the release on the Consultation Paper on Phase 2 of the <i>Conceptual Framework</i>. HoTARAC agrees with many of the decisions reached to date, in particular:</p> <ul style="list-style-type: none"> • specifying that this Framework section only relates to elements used in GPFs rather than the broader GPFs; • including service potential in the definition of an asset and providing a definition of service potential in the framework; • associating an asset with an entity through the control concept; • including non-legal binding obligations in the definition of present obligation; • covering the definition of elements, their recognition and derecognition; and • the recognition of various ownership interests that may arise in the public sector context. <p>However, HoTARAC has significant concerns with a number of the proposals in the current exposure draft, the most important of these being the inclusion of deferred inflows and deferred outflows as elements of financial statements.</p> <p>HoTARAC is of the view that the proposed approach of defining deferred inflows and outflows would not faithfully represent the economic phenomena and would also mislead users' understanding of the entity's financial performance. Further, it appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements. Additionally no convincing arguments are advanced for their use, in particular whether there is a specific public sector issue to diverge from International Financial Reporting Standards (IFRS). IPSASB needs to be conscious that creating a different definition of elements would likely confuse report readers and is required only when there are significant benefits to do so. The case for the use of deferred inflows and outflows has not been sufficiently demonstrated by the IPSASB.</p> <p>If IPSASB still consider the need to provide deferred inflows and outflows information essential, the alternative approach presented in AV11 of presentation and disclosure would be preferable to creating separate elements and changing the well understood definition of revenue, expense and net financial position.</p> <p>HoTARAC reiterates its preference for the IPSASB and International Accounting Standards Board (IASB) to work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. Even if this would delay progress from an IPSASB perspective, HoTARAC believes such convergence would result in superior long-term outcomes for public sector entities globally. The greater the potential for divergence between</p>	<p>Noted</p> <p>See Agenda Paper 2A.1for discussion of deferred inflows and deferred outflows.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of-government reporting entity.</p> <p>HoTARAC recommends that the IPSASB communicate to constituents how and when it will address this obvious tension between standard-setter frameworks under which various public sector entities might operate.</p> <p>HoTARAC recommends that when developing the conceptual framework, the IPSASB work closely with the IASB and aim to create a uniform conceptual framework. Divergent frameworks will prove especially difficult to apply in countries such as Australia that promote a transaction neutral approach.</p> <p>HoTARAC believes that having a common conceptual framework for both private and public sectors allows comparability and consistency of financial reporting between the two sectors.</p> <p>HoTARAC notes the IPSASB's comment on page 6 of the Exposure Draft that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, no reasons have been given as to why the IASB's conceptual framework is so fundamentally unsuitable for public sector entities, that development of a separate conceptual framework for such entities is warranted. HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework - particularly if alignment (to the degree possible) with IFRS is to remain an objective.</p> <p>It is also noted that the IASB is currently deliberating on the definition of the elements in the Framework. In HoTARAC's view, the IPSASB should use the IASB definitions, unless there is a strong justification for departure.</p> <p><u>Other comments:</u></p> <p>HoTARAC strongly recommends that the size of a transaction should not influence its reporting as suggested in BC7 in relation to executory contracts. Executory contract components should be reported by each party when these meet the element definition and the recognition criteria.</p> <p>It would be useful if IPSASB could provide an example of a conditional obligation that creates a liability as stated in BC 22.</p> <p>HoTARAC also supports IPSASB's conclusions on non-binding obligations stated in BC 31.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2A.1 for discussion of liabilities.</p> <p>Example in BC to be addressed</p> <p>Noted.</p>
032	<i>No general comments noted.</i>	

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
033	<p>Given the significance of Balanced Budget legislation and the resulting focus on the annual surplus/deficit, senior Canadian governments have voiced concerns to PSAB that a balance-sheet focused conceptual framework may lead to standards that are contrary to the public interest. As part of a Joint Working Group initiative between representatives from PSAB and the Deputy Minister of Finance community, the significance of the balance sheet, statement of operations and the supporting notes as relevant to meeting user needs for transparency, accountability and decision making was acknowledged. At the time, the Joint Working Group contemplated the need to consider deferred debits and credits in situations where asset and liabilities definitions were deemed inadequate.</p> <p>From an implementation perspective, there may be risks in regards to consistent interpretation and application of deferrals. As a result, this would create a risk of potential negative impacts on government accountability and decision making (e.g. funding decisions based on non-monetary deferred balances). In order to further assess and mitigate such risks and preserve the integrity of the statement of operations, we would suggest that IPSASB provide additional details regarding the nature and reporting criteria for deferrals.</p> <p>Under Balanced Budget legislation, a key reporting objective for the statement of operations is to portray the economic inflows and outflows associated with providing services in the period. To the extent that deferrals enable the public sector to consistently report revenues and costs in the period(s) in which services and/or benefits were provided, then accountability objectives will be served.</p>	<p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
034	<p>We support the IPSASB's effort in developing a conceptual framework for public sector entities. We are of the view that the conceptual framework should be aligned with the International Accounting Standards Board ("IASB") conceptual framework except for areas that are specific to public sector. The conceptual framework will then support the development of relevant International Public Sector Accounting Standards ("IPSASs") and Recommended Practice Guidelines ("RPGs"). Such approach will assist the users' understanding of general purpose financial reports (GPFRs) who read financial reports across public and private sectors.</p> <p>Generally, in many parts of the world and specifically in Malaysia, both preparers and auditors of the GPFRs are converse with the International Financial Reporting Standards ("IFRS"). The move to accrual accounting by the Government of Malaysia in 2015 is likely to result in the migration of accountants from private to public sector as they are cognisant with IFRS. The alignment of IPSAS and IFRS would ease mobility of accountants between the two sectors.</p> <p>The Preface to International Public Sector Accounting Standards issued by the IPSASB explains</p>	<p>Noted</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. Similar to the above, the alignment of IPSAS and IFRS would ease the consolidation of GBEs when preparing the consolidated financial statements of public sector entities.	See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.
035	<p>The “Direction générale des finances publiques” (the French Directorate of Public Finances) welcomes the publication of the exposure draft (“the ED”), which takes into account the comments made in our response to the previous Consultation Paper on Phase 2 of the Conceptual Framework.</p> <p>However, we do not think the ED takes sufficient account of the characteristics specific to the public sector, principally those of the State stemming from its sovereign power. These characteristics are mainly:</p> <ul style="list-style-type: none"> • The predominance of non-exchange transactions, related to the State’s mandate as an economic and social regulator. These transactions make up the State’s main and regular activity and have no equivalent in the private sector, • The nature of its revenue, most of which cannot be equated with the sale of goods or services, but which is related to the State’s capacity to levy taxes. This is an asset that goes unrecognised in its accounts, • The assets stemming from sovereign power that can result from non-exchange transactions, such as the power to levy taxes, but also from exchange transactions in the case of assets associated with the right to occupy or use public property, such as the radio spectrum. These assets have no equivalent in the private sector, and • The State’s role as “insurer of last resort”. <p>The specific characteristics of the other public-sector entities are narrower in scope because they do not have the attribute of sovereignty.</p> <p>The principal difficulty raised in, but not dealt with by, the ED lies not in the definition of these specific assets and liabilities but in the lack of a clear definition of the recognition criteria, which are essential to ensure the consistency, transparency, intelligibility and quality of public accounts over time. In this respect, we do not think the qualitative characteristics set forth in Chapters 1 to 4 of the Conceptual Framework published on 11 January 2013 provide an adequate definition of the recognition criteria.</p> <p>Regarding non-exchange transactions, the only way to ensure consistency is to clearly separate liabilities from off balance sheet commitments indicated in the notes. This underscores the importance of developing the concept of off balance sheet commitments, and providing a clear definition of them in the Conceptual Framework.</p>	<p>To be considered by IPSASB</p> <p>Noted</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>We also think it important to remind you of the following:</p> <ul style="list-style-type: none"> • as is the case for business enterprises, the financial statements of public entities are usually prepared in accordance with the going-concern principle, i.e. on the assumption that the entity will continue to operate (i.e. not be liquidated), and with the accrual principle, • The notes are an integral part of the financial statements. Consequently, the information contained in the notes is no less important than that reported in the other components of the financial statements. <p>According to these principles, the effects of the transactions should be recorded in the financial statements in the period when they occur, even if the related inflows or outflows occur in a different period. Conversely, the financial statements cannot record liabilities representing future expenses that public entities will commit as part of their routine activities. If such an approach were applied to the private sector, a business would have to set aside provisions for production costs that will be committed in future periods, on the grounds that this commitment is necessary to ensure continuity of business.</p>	<p>Noted</p>
036	<p><i>No general comments noted.</i></p>	
037	<p>Our preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. The Memorandum of Understanding between the International Accounting Standards Board and the International Federation of Accountants notes the importance of involving the International Accounting Standards Board technical staff in the IPSASB's development of a conceptual framework for public sector entities (Framework). We are pleased that this is taking place and we hope that it will continue with an increasing focus now that the IASB are progressing with their conceptual framework project. We commend the IPSASB on publishing the first four chapters of the Framework. We also agree with the decision of the IPSASB to defer approval and publication of the Preface to the Framework until the Framework is being finalised. This will allow the linkages with the concepts in the Framework to be made more explicit. Furthermore, we believe the Framework would benefit from an IPSASB review of all the published chapters as part of the finalisation process. As well as enabling the linkage of concepts to be made more explicit a review of this type enables the Framework to be subjected to a contemporary holistic evaluation before its finalisation.</p> <p>At the Framework level we consider it important that the asset and liability definitions are kept general and broad. Further, we believe that assets and liabilities should be the principal building blocks of the Framework. For this reason we do not support the IPSASB's proposals in Conceptual Framework Exposure Draft 2 (ED) to define 'deferred inflows' and 'deferred outflows' as new elements used in financial statements.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>For consideration by the IPSASB</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
037.1	<p>We believe that assets and liabilities are the principal building blocks of the system to give meaning to financial performance through the reporting of economic phenomena in the form of economic resources and obligations. This system was described in an earlier IPSASB Consultation Paper Elements and Recognition in Financial Statements as an asset and liability-led approach. On reading the ED it is our conclusion that the IPSASB has rejected the asset and liability-led approach in favour of a revenue and expense-led approach. In turn, this means that assets (and liabilities) are not considered to be the principal building blocks – which are an outcome that we do not support.</p>	<p>Noted</p>
038	<p>General comments</p> <p>We support and commend the Board's efforts in developing an accounting conceptual framework specific to the public sector and its objective to set high-quality public sector accounting standards in order to strengthen transparency and accountability of public sector finances.</p> <p>We would strongly encourage the Board to be closely connected to the development of the International Accounting Standards Board's (IASB) conceptual framework and consider the relevance and appropriateness of the decisions taken by the IASB for the IPSASB's conceptual framework. While we acknowledge that there will be some public-sector specific standards and requirements for public-sector transactions, the concepts underpinning the elements, recognition and measurement should be coherent and consistent between both frameworks.</p> <p>We generally agree with the direction of the project except for the area highlighted below.</p> <p>Defining deferred inflows and deferred outflows as separate elements</p> <p>Although we understand the issue that the Board is seeking to address, we disagree with defining deferred inflows and deferred outflows as elements as described in paragraphs 5.1 – 5.6 of the ED and highlight some of the reasons here. More detailed discussion is included in our response to Specific Matter for Comment (SMC) 5 in the appendix to this letter.</p> <p>We consider it important that the conceptual framework contains elements that represent real-world phenomena, rather than accounting constructs that do not exist in the real world.</p> <p>Also, although the Board has attempted to limit the circumstances in which deferred inflows or deferred outflows arise (only from non-exchange transactions), the limitation serves to demonstrate that these resemble exceptions rather than defined elements developed on a sound conceptual basis.</p> <p>Time-based restrictions placed on inflows or outflows could provide entities with structuring opportunities to delay recognition of revenue or expenses. For example, an entity that received funding to undertake a particular project is not required to return the funds if they are not spent as specified. This would give rise to immediate revenue recognition. However, if the restriction is based on time (i.e. the funds are to be spent in a particular time period), revenue is deferred, even though</p>	<p>Noted</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>there is no obligation to return the funds if they are not spent during that period. Firstly, we are not convinced that there is any conceptual rationale that explains why the two types of restrictions should result in different accounting treatments. Secondly, it would be possible for an entity to negotiate a project-based restriction for a time-based restriction in order to achieve a desired accounting outcome, without changing the substance of the arrangement.</p> <p>We would like to emphasize that concepts outlined in the conceptual framework should be applicable to a range of transactions and events. Further, principles in the conceptual framework should not be designed to accommodate or achieve specific outcome(s) for particular group(s) of transactions. We suggest that in instances where the Board believes departures from the principles in the framework are required; it would be more appropriate to deal with such departures at a standard level, rather than at the conceptual framework level.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>Noted</p>
039	<p>General Comments</p> <p><i>Due process</i></p> <p>The AASB recommends that the IPSASB issues an omnibus ED incorporating its proposed Conceptual Framework after it has redeliberated all of its Conceptual Framework EDs, rather than finalising its Conceptual Framework without further consultation. An omnibus ED would enable the IPSASB's constituents to comment on the IPSASB's latest thinking on all of its proposals in its Conceptual Framework project, and to have regard to recent developments in financial reporting (including developments in the IASB's Conceptual Framework project).</p> <p><i>Subsequent review and update of the IPSASB Conceptual Framework</i></p> <p>The AASB recommends that the IPSASB should regard its Conceptual Framework as a living document, and thus should commit to reviewing and updating it from time to time in light of subsequent developments in financial reporting, the timing of which should reflect its resources and priorities. This approach would be beneficial, for example, in respect of concepts of presentation and disclosure. The AASB considers that thinking on these concepts is still in the early stages of development, on the part of the IPSASB, the IASB and the international financial reporting community generally. Therefore, it seems likely that thinking on concepts of presentation and disclosure will continue to evolve further. This illustrates the importance of not treating the IPSASB Conceptual Framework as an immutable document.</p> <p><i>Relationship between the IPSASB and IASB Conceptual Framework projects</i></p> <p>The AASB recommends that the IPSASB maximizes its liaison with the IASB regarding those Boards' respective Conceptual Framework projects, in the context of the Memorandum of Understanding between the International Federation of Accountants and the IASB dated 22 November 2011.</p>	<p>For consideration by the IPSASB</p> <p>For consideration by the IPSASB</p> <p>See Agenda Paper 2.1 for discussion of</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>Ideally, the IPSASB and IASB Conceptual Frameworks would be complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.</p> <p>In the context of the IPSASB's ED, the AASB recommends that differences between the IPSASB and IASB Conceptual Frameworks in relation to the definitions of, and recognition criteria for, the elements of financial statements should occur only when there is a public sector not-for-profit entity-specific reason for those differences. This is on the basis that the AASB supports transaction neutrality and the ultimate development of a single converged Conceptual Framework for all entities (regardless of their sector).</p> <p>Despite this recommendation, the AASB's arguments in relation to the IPSASB ED in this submission are mainly focused on technical reasons, and not primarily on whether the IPSASB's proposals are consistent with the tentative thinking of the IASB in its Conceptual Framework project.</p> <p>Specific Comments</p> <p>The AASB's most significant specific comments regarding the issues in the ED are in respect of 'deferred inflows' and 'deferred outflows' (see below).</p> <p><i>Deferred inflows and deferred outflows</i></p> <p>The AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements. The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) only assets and liabilities should be recognised in the statement of financial position.</p> <p>An important reason why the AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.</p> <p>Consistent with this view, the AASB also does not support consequently identifying net financial position in addition to net assets.</p> <p>The AASB's concerns regarding 'deferred inflows' and 'deferred outflows' are elaborated in its comments on Specific Matter for Comment 5, set out in Appendix A.</p>	<p>relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of the relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>Noted</p> <p>See Agenda Paper 2A.1for discussion on deferred inflows and deferred outflows.</p>

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
039.1	<p>Remeasurements of assets and liabilities excluded from surplus or deficit for the period</p> <p>The AASB recommends amending, or adding to, the proposed definitions of the elements of financial statements to explicitly cater for remeasurements of assets and liabilities that are adjusted directly to net assets, that is, without being recognised in surplus or deficit for the period. This recommendation is explained below.</p> <p>Because the IPSASB ED's proposed concept of 'revenue' equates to the concept of 'income' in the IASB Conceptual Framework, some might expect the definition of revenue to cover asset revaluation increases credited directly to revaluation surplus. However, the ED's definition of revenue in paragraph 4.1 does not mention 'enhancements' (it only includes 'inflows'). An increase in the fair value of an item of property, plant or equipment or an intangible asset does not seem to qualify as an 'inflow' of an asset because no transaction or growth (for example, as occurs with biological assets) has occurred.</p> <p>Some others might regard revaluation increases or decreases excluded from surplus or deficit for the period as capital maintenance adjustments, because they do not view those revaluation increases or decreases as representing inflows/outflows or enhancements/diminutions of service potential or economic benefits. Instead, they view those revaluation increases or decreases as representing a repricing of the same service potential (i.e. the same capacity to provide services). For them, extending the definition of revenue to include 'enhancements' of assets would not cater for these revaluation increases, because they do not think the assets have been enhanced. They argue that the treatment of revaluations of property, plant and equipment and intangible assets under IPSASs and IFRSs implicitly treats the entity's capital (as reflected, in part, in the service potential of its assets) as its operating capability (or a similar notion). This is because a change in the price of the same resources does not change the operating capability they embody; and therefore it would be appropriate to exclude that recognised price change from surplus or deficit for the period, which represents the change in the entity's capital (excluding ownership contributions and ownership distributions) recognised for the period. However, the ED does not identify 'capital maintenance adjustments' as elements.</p> <p>Regardless of which of the views in the two immediately preceding paragraphs is held, it seems revaluations excluded from surplus or deficit for the period are not catered for in the ED's proposed definitions of the elements of financial statements.</p> <p>Did the IPSASB intend not to cater for revaluations excluded from surplus or deficit in the definitions of the elements of financial statements? If that apparent omission was not intended, the AASB suggests addressing this concern by either amending the definitions of revenues and expenses to refer to enhancements or diminutions of resources, or by identifying capital maintenance adjustments as elements of financial statements. At this stage, the AASB does not have a</p>	<p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p> <p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p> <p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

R #	RESPONDENT GENERAL COMMENTS	STAFF COMMENTS
	<p>preference for either solution.</p> <p>However, the AASB considers that, if the IPSASB were to regard particular remeasurements of assets and liabilities excluded from surplus or deficit for the period as repricing the same service potential or obligations to sacrifice service potential, it would be logical for the Conceptual Framework to treat those remeasurements as capital maintenance adjustments.</p>	<p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p>
040	<p>We reiterate our comments from previous responses to the conceptual framework that we believe that it is important that the differences between the IASB and IPSASB be minimized where possible.</p> <p>We specifically do not agree with the creation of two new elements (deferred inflows and deferred outflows) particularly as these elements will most likely only capture very few items.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

Specific Matter for Comment (SMC) 1:

Do you agree with the definition of an asset? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 006, 007, 009, 010, 013, 017, 018, 019, 021, 022, 024, 028, 030, 032, 033, 034, 035	20
B – PARTIALLY AGREE	003, 008, 011, 012, 014, 026, 029, 036, 037, 038, 039, 040	12
C – DISAGREE	005, 015, 020, 023, 025, 031	6
SUB-TOTAL OF THOSE PROVIDING COMMENTS		38
D – DID NOT COMMENT	016, 027	2
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
001	A	Paragraph 2.1 of the ED defines an asset as "... a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls and which arises from a past event." We find that the IPSASB's definition of an asset aligns very closely with the definitions used for assets by the Government Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB). In paragraph 8 of Concept Statement 4, GASB defines an asset as, "...resources with present service capacity that the government presently controls." FASAB, in Statement of Federal Financial Accounting Concepts 5 defines an asset as, "...a resource that embodies economic benefits or services that the federal government controls." The IPSASB's definition incorporates the key concepts that an asset is a resource that has a service potential and is controlled by the government. Therefore, we agree with the definition of an asset as proposed by IPSASB.	Noted.
002	A	Yes, we agree with the definition of an asset in paragraph 2.1.	Noted.
003	B	We agree that the definition of an asset should specifically include items which provide inflows of service potential in addition to economic benefits. We specifically support the explanation in paragraph 2.3 that service potential enables an entity to achieve its objectives without necessarily generating cash flows.	Noted.

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>We believe that the ability to control the asset should lead to recognition of that asset. Nevertheless, we note that the IASB Conceptual Framework project is recommending that the control test is applied at the recognition stage, rather than when the entity decides whether it has an asset or not. We encourage the IPSASB to monitor the IASB project and seek alignment across Conceptual Frameworks where the differences between elements are not due to the differences between the for-profit and not-for-profit objectives of entities.</p> <p>We do not consider it necessary that the definition of an asset include the need that the resource “arises from a past event”. If the resource is controlled by the entity it is an asset. How it came to be controlled is not relevant.</p> <p>We urge caution in the inclusion of “the ability to deny or restrict access to the resource” in the indicators of control (paragraph 2.7). We think there is a risk that such an indicator could be argued to exclude public roads, parks, public walks and the like from falling within the definition of assets. That would be inappropriate. Further elaboration may be required so that an asset can be recognized when the entity has “the ability to deny the transfer of ownership or the rights to ownership” or is able to “regulate the use of the resource” or is “responsible for protecting and/or maintaining the service potential of the resource”.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2A.1 for discussion on definition of an asset.</p> <p>See Agenda Paper 2A.1 for discussion on definition of an asset.</p>
004	A	We agree.	Noted
005	C	<p>The important characteristics of an asset are included in the definition: <i>resource, service potential, economic benefits, control and past event</i>.</p> <p>In Switzerland a distinction is made between Administrative Assets and Non-Administrative Assets. Administrative Assets serve the direct fulfilment of public sector duties (i.e. provision of public services) and as a rule are subject to credits (appropriations) being approved by Parliament. On the other hand Non-Administrative Assets comprise all assets that are freely disposable, i.e. are not bound to the fulfilment of a duty (cash, financial investments, etc.). As a rule competence over Non-Administrative Assets lies with the administration. Even if we know that the distinction between Administrative and Non-Administrative Assets is scarcely used in other countries, it seems to us important to retain this distinction for Switzerland. Even though Switzerland does not expect that such a distinction will appear in the IPSAS standards. But it is compatible with the characteristics listed in this ED. In effect <i>service potential</i> is facilitated by the <i>administrative assets</i>, whereas <i>economic benefits</i> are facilitated by the <i>non-administrative assets</i>.</p> <p>In the extended definition (compared with the Consultation Paper) place is found for the capitalized investment grants (<i>grants for capital expenses</i>). In Section 2.7. It should be mentioned that the conditions a) to d) do not <i>all</i> have to be fulfilled for the criterion of control to be fulfilled. Additionally the</p>	Noted

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		definition of an asset must be extended to take into account <i>deferred inflows</i> .	Agreed. Will be clarified.
006	A	<p>The Council agrees with the definition of an asset used in the Exposure Draft, and in particular with the concepts of economic benefits and service potential, control of the asset and a past event that are included in this definition.</p> <p>The Council is satisfied that this definition takes into account the main substance of the comments in its 9 June 2011 response to the Consultation Paper. It particularly notes that the non-commercial character of public sector service is recognised, included in the elements of the definition of service potential.</p> <p>The Council also approves the elements used to define the concept of control of an asset. The definition is consistent with that used by French Central Government accounting standards. The Council nonetheless believes that in paragraph 2.7 a reference to the entity that bears the risk associated with the asset should be added to the indicators of control. The fact that the public entity bears the risks and costs linked to holding the asset constitutes a presumption that it exercises control. Finally, the fact that control can be exercised without ownership of the asset could be detailed in the standards.</p> <p>The Exposure Draft specifies that recognition of an asset arises from a past event, and that general rights relative to the Central Government's or the public entity's sovereign power are not in themselves assets. The Council is taking the same approach with regard to the power to levy taxes, finding that there must be an event such as a parliamentary vote (in France, the vote on the budget act) that transforms a general right into an asset in order for it to be recognised as such. It also suggests that for clarity, in paragraph 2.8 the term "<i>when the power is exercised</i>" be replaced by "<i>when the power is enforced</i>".</p>	<p>Noted</p> <p>Noted</p> <p>See Agenda Paper 2A.1 for discussion on control.</p> <p>See Agenda Paper 2A.1 for discussion on past event.</p>
007	A	<p>We agree with the proposed definition and the attributes of what constitutes an asset.</p> <p>As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.</p> <p>Furthermore, we would like to draw the Board's attention to the duplication that currently exists between the definition of an asset in paragraph 2.1 and the definition of "a resource" in paragraph 2.2. To address this issue, FEE recommends the removal of the first sentence of paragraph 2.2.</p>	<p>See Agenda Paper 2A.1 for discussion of deferred inflows, deferred outflows, revenue and expenses.</p> <p>Agreed. See Agenda paper 2A.1 on asset definition.</p>
008	B	<p>In general, we support the definition of an asset. However, the IPSASB may wish to consider whether it is necessary to include "past event" in the definition of an asset. In this regard, we recommend that the IPSASB monitors developments on this issue at the IASB with the objective of aligning the definitions of an asset in the IPSASB and IASB Frameworks.</p> <p>We acknowledge that past events give rise to assets and liabilities and the requirement for a past event may, in certain circumstances, give greater clarity in determining when assets and liabilities exist.</p>	<p>See Agenda Paper 2A.1 for discussion on past event.</p>

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		<p>However, in our view, the identification of a past event is not always required in order for an asset to exist: whether or not an asset exists could be determined by reference to present circumstances.</p> <p>We note that paragraph 2.8 of the ED uses “past event” to limit the economic phenomena that could be classified as an asset. As illustrated in paragraph 2.8, it can be difficult to unambiguously identify the past event in the public sector. For example, assets associated with the power to tax could emerge in different forms over time. We acknowledge that a past event may be a useful indicator that an asset exists but we do not consider that it is always an essential pre-requisite for the identification of an asset. The requirement for a past event can also be viewed as a recognition issue and such uncertainty might be better addressed in section 7 as part of “existence uncertainty”.</p> <p>The discussion of control in paragraph 2.6(b), in our view, is too broad. It focuses on power without linking it back to the notion of the entity deriving benefits from the resource. For example, a government’s legislative or regulatory powers could result in all resources in the government’s jurisdiction being considered to be under the control of the entity if the wording in 2.6(b) is applied. We suggest rewording 2.6 and combining (a) and (b) along the following lines:</p> <p><i>“Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource.”</i></p> <p>Paragraph 2.7 sets out the indicators of control. The indicator “the ability to deny or restrict access to the resource” may inappropriately result in certain assets such as public roads, parks and public walkways being excluded from the definition of assets if it is read too literally. For example, an entity may consider that it does not control a main road because it argues that it cannot, in practice, permanently deny access to that road. It may be necessary for the Framework to include further guidance on this indicator.</p>	<p>See Agenda Paper 2A.1 for discussion on past event.</p> <p>See Agenda Paper 2A.1 for discussion on past event.</p> <p>See Agenda Paper 2A.1 for discussion on control.</p> <p>See Agenda Paper 2A.1 for discussion on control.</p>
009	A	Yes, we agree with the definition of an asset. In particular, we believe that referring to “the ability” to provide economic benefits or service potential is an improvement from the previous definition as this more appropriately reflects the nature of public sector assets.	Noted.
010	A	We agree with the definition of an asset and we agree that control is an important criterion by which assets and liabilities are recognized. However, the issue of control is a long standing issue. For example, in the UK the NAO’s definition of control is different to that of the treasury, especially in relation to what constitutes a public and non-public asset. Also, there is an issue of many years before a temporary transaction transpires to be a more permanent asset/liability. Given both sets of circumstances we believe that it is important for IPSASB to address the issue of ‘control’ within the conceptual framework.	See Agenda Paper 2A.1 for discussion on control.
011	B	You ask whether “we agree with the definition of an asset and if not, how we would modify it”	See Agenda Paper 2A.1 for discussion

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		<p>We generally agree with the definition of an asset; however we would be more specific with regard to the economic benefits and service potential and include the term “future inflows of economic benefits or service potential.” In addition the term “ability to provide” does not necessarily convey the expectation of the future inflows of cash or other economic benefits to the entity. It may be argued that it is not sufficient for an asset to only have the ability to provide future inflows of cash or other benefits but that the future inflows are actually expected to flow to the enterprise.</p> <p>We further recommend that the ED explicitly state that legal ownership is not an essential prerequisite for recognition of an asset.</p>	<p>on asset definition.</p> <p>Agreed. See Agenda Paper 2A.1 on asset definition.</p>
012	B	<p>We agree with the principal components of the definition of an asset, but believe that the specific language of the definition could be made clearer. We believe that the phrase “ability to provide an inflow of service potential or economic benefits” could be clarified. This phrase could be interpreted to describe future resources, rather than present resources and it seems to imply that the services flow to the government, rather than to the citizens of the government. We suggest that a simpler way to express this idea would be to describe resources as items with present service capacity or economic benefits.</p>	<p>See Agenda Paper 2A.1 on asset definition.</p>
013	A	<p>Yes, the definition is similar to those offered by the IASB, FASB and US GASB.</p>	<p>Noted.</p>
014	B	<p>ACAG suggests amending the definition of an asset for the use the term “future economic benefits” instead of “economic benefits” in order to be consistent with the IASB Conceptual Framework;</p>	<p>See Agenda Paper 2A.1 on asset definition.</p>
015	C	<p>The definition included in 2.1 on p. 10 can seriously be criticized.</p> <p>The former definition by IPSAS (IPSAS 2001, IPSAS standard 17) started from the IAS/IFRS definition but replaces the term “enterprise” by “entity” and adds the term “service potential”, so that the definition is broadened: “<i>Assets are resources, (2) controlled by an entity, (3) as a result of past events and (4) from which future economic benefits or service potential are expected to flow to the entity.</i>”(numbers and italics added)</p> <p>Referring to Christiaens, Rommel, Barton and Everaert (2012) and see also Barton 2004, Christiaens 2004, the economic benefits or service potential of many governmental capital goods do NOT flow to the entity, but to the citizens and users. Examples are monuments, landscapes, public roads, heritage assets, collections, etc. Therefore, those governmental capital goods cannot be recognized as being assets. They should be reported off balance sheet.</p> <p>Apparently, the current ED 2 avoids the problem of to where the benefits and service potential flows, but it should be made clear that those benefits need to flow to the controlling entity in order to recognize</p>	<p>See Agenda Paper 2A.1 on asset definition.</p>

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		capital goods as assets!	
016	D	No comment noted.	N/A
017	A	We agree with the definition of an asset.	Noted
018	A	<p>CIPFA agrees with the proposed definition of an asset, although we would note that the current drafting at 2.1 repeats detail which is (necessarily) included in the definition of a resource at 2.2. A possible redraft is attached at ANNEX B.</p> <p>As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.</p> <p>Drafting Suggestion</p> <p>2.1 An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.</p> <p>A Resource</p> <p>2.2 A resource is an item with the ability to provide an inflow of service potential or economic benefits.</p> <p>2.3 That resource must be controlled by the entity (see paragraph 2.6.) Physical form is not a necessary condition of an asset a resource. The benefits can arise directly from the resource itself or from the rights to the resource. Some resources embody an entity's rights to a variety of benefits including, for example, the right to:</p> <ul style="list-style-type: none"> (a) Use the resource to provide services; (b) Use an external party's resources to provide services, for example, leases; (c) Convert the resource into cash through its disposal; (d) Benefit from the resource's appreciation in value; and (e) A stream of cash flows. 	Agreed. See Agenda Paper 2A.1 on asset definition.
019	A	The Province agrees that assets are inflows of either service potential or economic benefits that an entity controls, and which arose from a past event. The Province especially agrees that the entity must have control of the resource at the reporting date. Control of the resource entails the ability to use the assets benefits but also includes the ability to direct other parties on the nature and manner of use of the benefits.	Noted.
020	C	In our opinion, clarification as to the term "ability" is needed. Using the term "with the ability to provide an inflow of service potential or economic benefits...." will mean that where there is no "ability" there is no asset. We believe there is a need for further guidance of the practical implications as to what "ability"	See Agenda Paper 2A.1 on asset definition.

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		<p>shall constitute in this context. For example, whilst an item may have an inherent ability to provide an inflow of service potential or economic benefits, that same ability may be severely restricted or even negated by law or regulation. Other considerations such as the probability that the ability will actually result in an inflow may also need to be considered. In our view, the latter may be best included as a recognition criterion (see our response to SMC 7).</p> <p>In our previous letter referred to above, we had also commented that specifying access rights, including the right to restrict or deny others' access rights is overly restrictive. We continue to hold this view. In this context, and on the assumption that the IPSASB intends to retain this material, we believe the last sentence of paragraph 2.7 needs further clarification. In our opinion, it is possible that access rights to a particular resource could fall under the discretion of a different public sector entity (e.g. by means of bylaws etc. determined by another entity) than the entity seeking to account for the asset. As a result we suggest – as a minimum – the wording of the last sentence of paragraph 2.7 be amended to "...it may be questionable..."</p>	
021	A	We agree with the proposed definition and the attributes of what constitutes an asset.	Noted.
022	A	Yes, we agree with the proposed definition of an asset.	Noted.
023	C	<p>In reviewing the definition of an asset, the following documents were also considered:</p> <ol style="list-style-type: none"> 1) IPSASB – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Exposure Draft April 2011) 2) IASB/FASB – Definition of Assets 3) Exposure Draft 2: Conceptual Framework - Basis for Conclusions (BC3 – BC20) <p>It is our opinion that an IPSASB definition of an asset should reflect the unique characteristics of assets in the public sector, where 'public sector' has been referred to by IPSASB to include "national governments, sub-national governments, local government units and regulatory bodies . . . and Government Business Enterprises (GBEs)".</p> <p>The unique characteristics of the public sector that should be considered are:</p> <ol style="list-style-type: none"> i) The public sector is expected to deliver goods and services that are not necessarily to generate profits/positive cash flows. ii) There is an obligation for the public sector to provide non-exchange 'social goods' such as welfare services for which any fees charged may not be commensurate with the value of the service provided. iii) A significant proportion of public sector revenue is derived from involuntary non-exchange transactions, mainly taxation; and involuntary transfers governed by treaties 	

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		<p>and conventions. This gives rise to the issue of a government's capacity to generate the revenue required to meet its obligations through non-exchange transactions.</p> <p>iv) A significant portion of property, plant and equipment held in the public sector are for the welfare of citizens as well as future economic benefits.</p> <p>v) A significant portion of government assets are specialized in nature (e.g. roads and heritage assets) with a very limited market for their sale. This gives rise to issues of measuring such assets.</p> <p>vi) The date of the 'past event' that gave rise to the asset may not be clear.</p> <p>It is our view that the unique characteristics described at i) – vi) above are not reflected in the ED, which defines an asset as “a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.” This definition is similar to the IASB definition that mainly applies to the private sector/non-governmental entities, which states, “An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.”</p> <p>The key features of an asset from these definitions are: a) past event; b) control; and c) future economic benefits, which are not completely relevant to the public sector based on its unique characteristics described at i) – vi) above. A relevant and robust definition of an asset could be:</p> <p><i>“A resource, with the ability to provide social or economic benefits that an entity presently controls, and which arises from a probable/an identifiable past event.”</i></p> <p>IPSASB defines a liability as “a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity”.</p> <p>NB: Social – welfare, recreational, charitable.</p>	<p>See Agenda Paper 2A.1 for discussion on asset definition.</p>
024	A	<p>We agree with the proposed definition of an asset as it has covered key attributes (i.e. resource, service potential, economic benefits, control and past event).</p>	<p>Noted.</p>
025	C	<p>IPSASBs current proposal is: “An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event.”</p> <p>IPSAS 1 describes an asset as “embodying service potential.” We do not believe that an asset necessarily delivers an inflow of service potential to the entity that holds it. We consider that an asset is used by the entity to deliver an outflow of services to the Public.</p> <p>The IASB defines an asset as: “An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.”</p> <p>We suggest that IPSAS mirrors more closely the IASB definition and suggest the following definition: An</p>	

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		asset is a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity, or from which service potential is expected to be extracted by the entity in the future.	See Agenda Paper 2A.1 for discussion on asset definition.
026	B	<p>Global agreement, but:</p> <p>1 The control criteria should rely more on a legal or contractual dimension, including property or disposal rights, and clarify the question of when the same asset is accounted for by multiple entities and the issue of control is discussed between them.</p> <ul style="list-style-type: none"> A conflict of criteria may happen between the “generation of income and economic benefits” on one hand, and the “access or ability to deny access to the resource” on the other hand. For example, an International Organization can recognize some equipment as assets, source of determination of revenues as contributions from member states, although access to this equipment, located in labs or research units, is submitted to authorization by local authorities. The public sector can meet situations where two public entities may claim the same level of total control on an asset (such as intangible assets, or art collections belonging to an entity and kept in a museum managed by another one), for political, historical or technical reasons. The same asset could be at the same time recognized in separate financial statements. Such events would less be likely to happen if the control criteria were also linked to legal justification, such as property rights. The framework should clearly state if an asset may or may not be recorded in its entirety by two distinct public entities. <p>2 The Conceptual framework should also indicate that assets include contingent assets, state that the accounting treatment of contingent assets is to be found in the standards, and indicate that they are not components of “net assets” (displayed in the statement of financial position) which is defined below in the ED.</p> <p>3 The exposure draft does not mention the issue of sovereignty in assets recognition, although this has a major importance at the conceptual level, such as the impossibility to register the ability to collect tax under constraint, or to change laws and regulations. These « assets » are strategic and impact the appreciation of users of financial statements, especially investors. It should at least be settled in the conceptual framework that the impossibility to recognize these assets as elements and to measure them does not mean that they do not exist and have to be ignored.</p>	<p>See Agenda Paper 2A.1 on an entity presently controls.</p> <p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on asset definition.</p>
027	D	<i>No comment noted.</i>	N/A
028	A	<p>We agree with the proposed definition of an asset.</p> <p>Paragraph BC 20 of the CF-ED2 states that, in view of the support expressed by many respondents to</p>	Noted.

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		CF-CP2, the IPSASB agrees with the view that, as an example of a past event that gives rise to an asset, the power of a government to levy taxes and fees must be converted into a right by legal means. Yet, we request the IPSASB to further strengthen its line of reasoning by including a theoretical support for this view.	See Agenda Paper 2A.1 on asset definition.
029	B	<p>The Task Force agrees with the proposed definition of an asset and notes that it is generally in line with definition of an asset included in IPSAS 1 as well as Task Force comments previously provided on definition of an asset proposed by the Conceptual Framework Phase 2 Consultation Paper (CF-CP2).</p> <p>The discussion on an asset being a resource appears to cover more ground than the definition of an asset and includes, among other dimensions, benefits that arise directly from the resource itself or from the rights to the resource (Para. 2.2). Basis for Conclusions (BC) refers to current rights as a type of intangible asset (Para. BC3). It also includes an example of the “right to require other parties to perform in a certain way, by, for example, making payments or providing goods and services in a manner specified by the entity” (Para. BC4). A sovereign government has rights to require various parties operating within its jurisdiction to act in a certain way, which may or may not meet definition of benefits related to an asset. However there are also other scenarios in the public sector which are not considered in CF-ED2. For example, UN system organizations routinely engage external partners with specific expertise in implementing projects in various locations around the world. Agreements with implementing partners typically prescribe a manner in which goods and/or services should be provided to beneficiaries. When CF-ED2 describes the concept of the right to require other parties to perform in certain way it draws no distinction between sovereign rights of governments and a right to require other parties to perform in a certain way through routine contractual engagements. However the latter scenario may not give rise to a benefit and hence should be clearly differentiated in the CF-ED2.</p> <p>The CF-ED2 also refers to entity’s rights to benefits, including use of an external party’s resource to provide services, for example, leases (Para. 2.2). The Task Force is of the view that a more detailed discussion of a resource which embodies an entity’s rights to a benefit would be helpful. More specifically in terms of leases, a decision of whether or not an asset exists for a lessee on the reporting date should be determined based on whether or not a lessee controls the asset at that date rather than on the fact that a lessee has a right to benefits associated with use of a leased resource. In this regard, it is noted that CF-ED2 refers to control of individual benefits from use of the resource as opposed to control over the resource in its entirety for determining whether an asset exists. This proposed concept is discussed further in the following section of the submission on control of an asset.</p> <p>In addition, while governments typically have rights to a wide range of resources, use of external resources by other public sector entities are usually based on contractual arrangements between two willing parties. Such arrangements may be of non-exchange nature and/or involve nominal fees, but they</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on an entity presently controls.</p>

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		<p>may not necessarily constitute a right (or entitlement) to receive benefits from external resources.</p> <p>On a closely related matter, the Task Force submission on CF-CP2 raised a question of recognition and measurement of donated rights to use assets and peppercorn rent, an area not yet covered by an IPSAS standard. The Task Force believes that IPSASB should consider reviewing these types of arrangements in detail in light of the proposed recognition of leases in CF-ED2.</p> <p>Control of an asset</p> <p>CF-ED2 builds on definition of control as the ability to exclude or regulate the access of others to the benefits of an asset (IPSAS 23) by listing three additional indicators. While (a) legal ownership has always been a traditional indicator, indicators (c) and (d) (Para. 2.7) represent a much more defined version of the previously used concept that control of an asset “arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives” (IPSASB Handbook 2012, Glossary of Defined Terms). CF-ED2 states that the entity should have “means to ensure that the resources are used to achieve its objectives” and should have an “enforceable right to service potential or economic benefits arising from a resource”. However it was noted that while the Basis for Conclusions discusses indicators (a) and (b) in detail it does not analyze indicators (c) and (d) and the impact which this more defined approach is expected to have on determining controlled assets in public sector. The Task Force is of the view that these indicators are important and that the Board should be in a position to provide some principles-based guidance thereon.</p> <p>It is important to note that the Basis for Conclusions considers ability to access a resource to be a solid indicator of control only if accompanied by the ability to deny or restrict the access of others to the resource (Para. BC 14).</p> <p>The Basis for Conclusions also warns against erroneous application of control to a “resource in its entirety and not to individual benefits that accrue from the resource” (Para. BC 11). It is imperative that the Board expands discussion of this proposed concept in interpretation of control of an asset and its practical application and relocates it to the main body of the CF-ED2 due to its significance. It is also anticipated that recognition and measurement of assets based on the proposed approach would be very complex, especially in absence of clear guidance in CF-ED2, while benefits of the proposed approach are not identified in the Exposure Draft. Due to these reasons the Task Force is not able to support this proposal at this time.</p> <p>Past event</p> <p>The discussion acknowledges a newly introduced concept that a right to a resource can give rise to a benefit and through it to an asset. However it then goes on to refer to the power to tax or to issue licenses as an example of “powers and rights that other non-public sector entities do not have” (Para. 2.8). This new dimension of having ‘exclusive rights’ to regulate a process or an activity and its</p>	<p>For consideration by the IPSASB.</p> <p>For consideration by the IPSASB.</p> <p>See Agenda Paper 2A.1 on control.</p> <p>See Agenda Paper 2A.1 on control.</p>

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		<p>implications for definitions of past event and of an asset in general should be further discussed in CF-ED2.</p> <p>There also appears to be an inconsistency between discussion in IPSAS 23 (Para. 34) which states that “transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer”, whereas CF ED-2 in its main body of text proposes that “general ability to tax” or “establishment of a power through a statute” can be considered as past events for recognition of an asset (Para 2.8). At the same time, the Basis for Conclusions (Para. BC 20) clarifies that “the IPSASB considered that a government’s inherent powers do not give rise to assets until these powers are exercised”. This clarification has to be included in the main body of the CF-ED2 to correct the above highlighted inconsistency.</p>	<p>See Agenda Paper 2A.1 on asset definition.</p>
030	A	<p>We agree with the definition of an asset as set out in the Exposure Draft.</p>	<p>Noted.</p>
031	C	<p>HoTARAC does not agree with the proposed IPSASB definition which excludes the concept of ‘future’ economic benefits (which appears to have been extracted and incorporated into the new definition of ‘deferred inflows’ to account for non-exchange transactions). It is not clear if this is intentional to allow for the creation of the additional elements, and whether this would create different interpretations of what constitutes an asset under the current generally accepted accounting principles and the proposed IPSASB framework.</p> <p>Apart from this separation, HoTARAC generally agrees with the definition of an asset subject to the deliberations by the IASB.</p> <p>As stated in the response to the earlier Consultation Paper (CP) on Phase 2, HoTARAC regards a past event as indicative of an asset, but not an essential feature of the definition. HoTARAC believes the discussion of paragraph 2.8 relates more to the recognition of an asset, rather than meeting the asset definition. HoTARAC commented in its response to the CP on Phase 2 that it supported applying a power view for recognizing assets such as the right to tax, where recognition applies at the point that the government has an enforceable claim on a specific economic resource (for example a taxable event give rise to a claim on a specific taxpayer).</p> <p>HoTARAC also recommends adding the risks and rewards of ownership as an indicator of control in paragraph 2.7. HoTARAC disagrees with the statement of BC16 that such an approach is incompatible with the control approach. HoTARAC notes that the risks and rewards test is applied to financial instruments under IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> and <i>leases</i> under IPSAS 13 <i>Leases</i>, without any apparent inconsistency with the control concept.</p> <p>One jurisdiction perceives “inflow of service potential” as too restrictive to be a useful characteristic</p>	<p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on past event.</p> <p>See Agenda Paper 2A.1 on control.</p>

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		of an asset. Rather the existence of service potential is a characteristic of an asset. To illustrate, roads and road furniture created and maintained by the Commissioner of Main Roads provides service potential to the community per the mandate of government to do these things. However, the Commissioner is not the sole beneficiary of the service potential arising from the asset as implied by the use of 'inflow' in the exposure draft.	See Agenda Paper 2A.1 on asset definition.
032	A	Yes, I agree with the definition of an asset.	Noted
033	A	We agree with the definition of assets, and in particular, that it includes intangibles. We understand that IASB is currently reviewing its element definitions for assets and liabilities. Given that IPSASB's work may be influenced by the outcome of IASB's efforts, we would urge the IPSASB to ensure that it's element definitions reflect the unique nature of the public sector, especially as related to non-exchange transactions, and to ensure that its conceptual framework supports financial reporting in the public sector which best serves user needs and the public interest.	See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	A	The definition proposed by IPSASB is consistent with the definition of assets used in French accounting standards applicable to the public sector. As discussed in our general comments and in the response to Specific matter for Comment 7, with respect to intangible assets stemming from sovereign power, we think the main difficulty lies in determining the recognition criteria. In this respect, we do not think the qualitative characteristics set forth in Chapters 1 to 4 of the Conceptual Framework published on 11 January 2013 provide an adequate definition of the recognition criteria.	Noted. For consideration by the IPSASB.
036	B	We agree with the definition of an asset as presented in this exposure draft. However, we would like to draw your attention to the definition of a "resource" in paragraph 2.2. The asset definition refers to a "resource, with the ability to provide an inflow of service potential or economic benefits ..." A resource is defined as "an item, with the ability to provide an inflow of service potential or economic benefits." The need to define a "resource" in the same way as an "item" is not very clear in the paper and needs more explanation. Without additional explanation, the introduction of "item" seems redundant.	See Agenda Paper 2A.1 on asset definition.
037	B	We support the proposed definition of an asset as it is general and broad and it captures the economic phenomena that we believe is the essence of the definition of an asset. However, we do note that the use of the term 'future economic benefits' could simplify the definition if it is used to encompass both 'economic benefits' and 'service potential'. We consider the relationship between service potential and economic benefits is unclear from	See Agenda Paper 2A.1 on asset definition.

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>paragraphs 2.3 to 2.4 of the ED. The explanation in paragraph 2.3 describes service potential broadly to be likely to encompass all assets without necessarily generating cash flows. BC 8 explains that the term 'economic benefits' relates to the ability to generate net cash flows, which sounds like it could be considered a subset of service potential.</p> <p>We recommend that the wording is changed as above, and the guidance clarified to indicate that service potential was a sub-set of future economic benefits.</p>	<p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on asset definition.</p>
038	B	<p>We agree with including both the notions of service potential & economic benefits into the definition of an asset. As mentioned in the Basis for Conclusions (BC) paragraph 8, there are different views on the meaning of these terms; therefore we agree that having both notions in the definition of an asset in the public sector context would encapsulate a public sector entity's objective(s) to deliver goods and services, and/or to generate net cash inflows. Nevertheless, we have included the following suggested clarifications to the discussion of <i>Assets</i> in section 2 of the ED:</p> <ul style="list-style-type: none"> Paragraph 2.2 (4th sentence) states 'The benefits can arise directly from the resource itself or from the rights to the resource.' This sentence seems to have confused 'rights' with 'resources'. This is an important point when determining the <i>nature</i> of an entity's asset. Where an entity has the right to use a physical/intangible object, that right of use is the resource that the entity controls, not the object itself. This could be rectified by the following suggested wording 'The benefits can arise directly from <u>the physical or intangible object itself</u> or from the rights to the <u>object</u>.' In paragraph 2.6(b), the discussion of control is very broad. It focuses on power without linking it back to the notion of the entity deriving benefits from the resource. For example, a government's legislative or regulatory powers could result in all resources in the government's jurisdiction being considered to be under the control of the entity if the wording in paragraph 2.6(b) is applied. We suggest rewording paragraph 2.6 and combining (a) and (b) along the following lines "... <u>Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource.</u>" We would also suggest that the Board discuss the issue of control over an entity in the body of the conceptual framework. We acknowledge that the Board is currently in the midst of the revision of IPSASs 6-8, but it would be useful to include a discussion on this issue, and the fact that it could differ quite significantly between jurisdictions. In practice, there are often difficulties in differentiating between 'administrative', 'operational', 'political influence' and 'judicial' control. For example, in countries where democracy is less mature or where the sovereign has extensive authority, it can often be difficult to determine control at the whole of government or federal government level. Hence a discussion of the key factors for preparers to consider when analyzing control as the basis 	<p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on an entity presently controls.</p> <p>See Agenda Paper 2A.1 on an entity</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>for consolidation would be helpful.</p> <ul style="list-style-type: none"> Paragraph 2.8 – the penultimate sentence sets out 4 points in time when an event gives rise to an asset of an entity. It is not clear what the difference is between events (c) and (d) – can the entity have a right to collect tax before the other party has an obligation to pay tax? The last sentence in this paragraph indicates that event (c) gives rise to an asset, yet the other party has no obligation to pay tax if (d) has not occurred. If (c) and (d) are two distinct events that can happen at different points in time, does this mean that, for example, a local council announcing that the rates it will levy on ratepayers next year, creates a present right to collect those rates? Although, in general, the existence of an asset does not necessarily mean that a counterparty with a corresponding liability must also exist (and vice versa), in the specific example of taxes, if an entity has “exercised its power to create a right” to collect taxes (i.e. event (c) has occurred), it is unclear in what circumstances this event would occur earlier than event (d). Given the final sentence in paragraph 2.8 indicates that event (c) is the triggering event for an asset to arise, it would be helpful to clarify the distinction between event (c) and event (d). 	<p>presently controls.</p> <p>See Agenda Paper 2A.1 on past events.</p>
039	C	<p>The AASB generally agrees with the proposed definition of an asset. Its suggestions for modifying the definition (and related guidance) are set out below.</p> <p>“Service potential or economic benefits”</p> <p>The definition of an asset in paragraph 2.1 of the IPSASB ED refers to “an inflow of service potential or economic benefits”. In this regard, the AASB would prefer only using the phrase ‘inflow of economic benefits’ in the definition of an asset, with clarifying guidance that service potential is a sub-set of economic benefits. This is because the AASB considers that, for any entity, whether for-profit or not-for-profit, in the public sector or private sector, stocks of economic benefits (‘future economic benefits’) are the scarce capacity of a resource to provide goods or services and thus assist the entity in achieving its objectives, regardless of whether those objectives are directed primarily at generating net cash inflows. Consistent with that view, all inflows of service potential would be encompassed by inflows of ‘economic benefits’.</p> <p>The AASB notes that some commentators regard ‘economic benefits’ as synonymous with net cash inflows, and are concerned that ‘economic benefits’ would therefore not encompass all resources deployed by not-for-profit entities. The AASB regards this concern as misplaced. Resources deployed by not-for-profit entities to provide services would generally also be held to generate net cash inflows,</p>	<p>See Agenda Paper 2A.1 on asset definition.</p>

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 1</p>	<p align="center">STAFF COMMENTS</p>
		<p>either directly through user charges or indirectly in the form of transfers from government and/or taxes. Sometimes a cash inflow may be in the form of an explicit subsidy of the cost of services provided, or implicit in the raising of revenue at an entity-wide level (for example, in the form of some taxes). The fact that some net cash inflows are more difficult than others to relate to particular assets does not necessarily mean the assets are not cash-generating.</p> <p>The relationship between service potential and economic benefits in the IPSASB ED seems unclear from paragraphs 2.3 – 2.4 of that ED. Paragraph 2.3 describes service potential so broadly as to be likely to encompass all assets; whilst economic benefits, being equated with an ability to generate net cash inflows (see second sentence of paragraph BC8), seems intended to be a subset of service potential (given that IPSASs distinguish ‘cash-generating’ and ‘non-cash-generating’ assets). However, the last sentence of paragraph 2.4 refers to “many assets that embody service potential”, which implies some assets do not embody service potential and consequently that economic benefits complement service potential. Related to this issue, the AASB disagrees with the implication in paragraph BC9 of the Basis for Conclusions on the IPSASB ED that an asset may generate net cash inflows without providing goods or services, given the broad meaning of ‘goods and services’.</p> <p>Association of an element with the entity</p> <p>The AASB notes that some assets, by their very nature, would be automatically associated with a particular entity and therefore would not require the specification of factors that associate the asset with the entity. For other assets, the AASB considers that, ideally, the definition of an asset should be broad, and (unlike the IPSASB’s proposed definition) should exclude factors that associate the element with an entity, such as control. Consistent with this, the AASB considers that such factors should form part of the recognition criteria instead.</p> <p>This is because the AASB considers it is useful to focus on the nature of economic phenomena (economic benefits and claims to economic benefits) that affect various entities, without restricting definitions of assets and liabilities only to phenomena that affect the reporting entity. This approach has the advantages of:</p> <ul style="list-style-type: none"> (a) keeping the definitions relatively simple and readily understandable; and (b) Helping minimize the risk that standard setters and others will ‘peek ahead’ to consider whether consequences of the definitions for the recognition of assets and liabilities will be desirable and/or consistent with existing conventions. Developing definitions that do not necessarily affect reporting entities should help in focusing on the economic phenomena to be identified as the elements of financial position (and, by derivation, the elements of financial performance). <p>However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project is (consistently with the IPSASB’s proposal) to include factors that associate the element with an</p>	<p>See Agenda Paper 2A.1 on asset definition.</p> <p>See Agenda Paper 2A.1 on asset definition</p> <p>For consideration by the IPSASB</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 1</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>entity (such as control) in the definition of an asset. The AASB suggests monitoring the outcome of the IASB's further deliberations on this issue. If the IASB's forthcoming Conceptual Framework Discussion Paper were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB's proposed definition of an asset is consistent in this respect with the IASB's conclusion on this issue, if known when the IPSASB finalizes its chapter on Elements and Recognition. (This comment is made in the context of the AASB's view, as expressed in the covering letter in this submission, that differences between the IPSASB's and IASB's Conceptual Frameworks should be limited to issues that specifically affect public sector not-for-profit entities and warrant a different treatment.)</p> <p><i>Guidance on control</i></p> <p>Regardless of whether the IPSASB treats control as part of the definition of an asset or of the recognition criteria for an asset (see comments immediately above), the AASB suggests merging parts (a) and (b) of paragraph 2.6 of the ED (on the meaning of control). This would avoid the problem that sub-paragraph 2.6(b), which is set out as an alternative to sub-paragraph 2.6(a), does not require the entity to obtain benefits from directing other parties regarding the use of a resource, in order to qualify as controlling the resource. For example, the second sentence of paragraph 2.6 could be reworded along the following lines:</p> <p style="padding-left: 40px;">"Control of the resource entails the ability of the entity to use the resource (or direct other parties regarding its use) in order to derive the [service potential or] future economic benefits embodied in the resource."</p> <p><u>Risks and rewards of ownership</u></p> <p>The fifth and sixth sentences of paragraph BC16 of the Basis for Conclusions on the IPSASB ED say the IPSASB decided exposure to the risks and rewards of ownership should not be an indicator of control "because it is not compatible with the control approach". The AASB:</p> <p style="padding-left: 20px;">(a) disagrees with that comment because it seems to be too categorical. That is:</p> <p style="padding-left: 40px;">(i) the AASB would agree that exposure to the risks and rewards of ownership should not be an essential characteristic of control, because exposure to the risks and rewards of ownership might not be clearly identifiable or might be a less appropriate indicator of control than other indicators; however,</p> <p style="padding-left: 40px;">(ii) The AASB would not agree that in every instance control would be incompatible with exposure to the risks and rewards of ownership. In some cases, identifying exposure to the risks and rewards of ownership might be useful in assessing whether a resource is controlled; and</p>	<p>See Agenda Paper 2.1 for discussion of relationship with the IASB Framework project.</p> <p>See Agenda Paper 2A.1 an entity presently controls.</p>

[illegible]

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>Other aspects</p> <p><i>Assets as stores of wealth</i></p> <p>An articulation of the stock of an entity's wealth (or capital) is important for defining the elements of its financial statements. This is because assets are stores of wealth. Unless the meaning of an entity's wealth (e.g. invested money capital, current cash equivalents or operating capability) is specified in the Conceptual Framework, the meaning of 'service potential or future economic benefits' will not be identified; consequently, the economic substance of an entity's assets will not be identified. This point is reiterated here as a reminder of the link between the measurement and elements components of a Conceptual Framework.</p> <p><i>The power to tax or to issue licenses</i></p> <p>The AASB notes that, in relation to the power to tax or to issue licenses, and to access or restrict or deny access to the benefits embodied in intangible resources, paragraph 2.8 of the IPSASB ED proposes that an asset arises when the power is exercised and the rights exist to receive service potential or economic benefits.</p> <p>As indicated above, the AASB's view is that assets should be defined without limiting them to items that would necessarily be recognized in financial statements. In addition, the AASB is of the view that the recognition criteria should be separate from definitions of the elements of financial statements. Accordingly, the AASB considers that a government's power to tax or to issue licenses, and to access or restrict or deny access to the benefits embodied in intangible resources, should be identified as assets, although assets associated with those powers might not qualify for recognition in the financial statements until an event (such as the exercise of the powers) occurs and the rights can be reliably measured.</p> <p>The AASB supports the IPSASB's decision not to retain in the ED the CP's reference to a right to tax as a 'perpetual asset'.</p> <p><i>Unconditional rights</i></p> <p>The AASB notes that the first two sentences of paragraph BC6 of the Basis for Conclusions on the IPSASB ED indicate that unconditional rights "may give rise to assets, if the entity has paid for them or if the unconditional right has acquired an identifiable value in an open, active and orderly market". The AASB disagrees with this statement because:</p> <ul style="list-style-type: none"> a) all unconditional rights that represent service potential or future economic benefits should be identified as assets (whether recognized or not); and b) Having a cost or strong market evidence of its value is not an essential characteristic of assets, either for assets generally in the IPSASB ED or in the IASB Framework. 	<p>of relationship with IASB Framework project.</p> <p>Noted.</p> <p>Noted.</p> <p>Noted.</p> <p>See Agenda Paper 2a.1 on asset</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
			definition.
040	B	<p>Whilst we can live with the definition of an asset, as indicated in our response to the Consultation Paper on Elements and Recognition in June 2011, we would prefer that assets be defined in terms of the <u>rights</u> to a resource that will provide future economic benefits and not control of the actual resource.</p> <p>Therefore, we would amend the definition to:</p> <p><i>An asset is a right to a resource that has the ability to provide an inflow of service potential or economic benefits, and which arises from a past event.</i></p>	See Agenda Item 2A.1 on asset definition.

Specific Matter for Comment (SMC) 2 (a):

Do you agree with the definition of a liability? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	002, 004, 007, 009, 012, 014, 017, 018, 019, 020, 021, 022, 028, 029, 030, 032, 033, 034, 040	19
B – PARTIALLY AGREE	003, 006, 008, 010, 011, 024, 026, 031, 036, 039	10
C – DISAGREE	001, 005, 013, 016, 023, 025, 035, 037, 038	9
SUB-TOTAL OF THOSE PROVIDING COMMENTS		38
D – DID NOT COMMENT	015, 027	2
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
001	C	<p>The FMSB is concerned about the IPSASB's definition of a liability as provided in Paragraph 3.1 of the ED. Paragraph 3.1 defines a liability as, "... a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity." We believe the phrase "... little or no realistic alternative..." would raise more questions than it would answer.</p> <p>Governments, especially national governments, have sovereign powers that provide them with a whole host of alternatives, all of which are within the realistic range. We do note and agree with the second sentence in paragraph 3.9 stating that sovereign power should not be used as a rationale for non-recognition; however, we believe that the definition would be effective without this phrase. For example, the definition could be as follows: "a liability is a present obligation that arises from a past event requiring a government entity to deliver services or economic benefits to another entity at a determinable date, when a specific event occurs, or on demand." The key liability concept is that a present obligation exists based on a past transaction or event, not whether the government has a "realistic alternative." The government may well have a "realistic alternative" and yet have a liability based on other imperatives.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
002	A	Yes, we agree with the definition of a liability given in paragraph 3.1.	Noted.
003	B	<p>We generally agree with the definition of a liability. The brief discussion on legal and non-legal binding obligations is helpful in the context of the public sector.</p> <p>We do not consider it necessary that the definition of a liability (or asset) include the need that the present obligation “arises from a past event”. If the obligation exists, it is a liability. How it came to be a liability is not relevant.</p> <p>We specifically support the guidance at paragraph 3.9 in relation to sovereign powers. We agree that sovereign power is not a rationale for the non-recognition of obligations that otherwise meet the definition of a liability. This approach aligns with best practice but it is helpful that it is specifically stated in the IPSASB conceptual framework.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on past event.</p> <p>Noted.</p>
004	A	We agree.	Noted.
005	C	The most important characteristics of a liability are included in the definition: present obligation, past event, no realistic alternative to avoid, outflow of service potential or economic benefits. Additionally the definition of a liability must be extended to take into account deferred outflows.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows with consequent impact on other definitions.
006	B	Subject to the comments in (b), the Council agrees with the IPSAS Board's proposed definition of a liability: “A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity”, which is directly derived from the generally agreed definition for liabilities. However, the particularities of the public sector should be added.	See Agenda Paper 2A.1 for discussion on definition of liabilities.
007	A	<p>We agree with the proposed definition and the attributes of what constitutes a liability.</p> <p>As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.</p>	<p>Noted.</p> <p>Noted.</p>
008	B	<p>In general, we support the definition of a liability. However, as with our comment on the definition of an asset, the IPSASB may wish to consider whether it is necessary to include “past event” in the definition of a liability. We recommend that the IPSASB monitors developments on this issue at the IASB with the objective of aligning the definitions of a liability in the IPSAB and IASB Frameworks.</p> <p>In our view, it may not be necessary to include a requirement that there have been a past event in the definition of a liability. The point in time when an entity has no realistic alternative to avoid an obligation</p>	See Agenda Paper 2A.1 for discussion on past event.

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		<p>may not necessarily coincide with or require a “past event”. Further, the inclusion of past event in the definition is inconsistent with the requirement to recognize non-legal binding obligations as liabilities as these may not arise from a readily identifiable past event.</p> <p>In relation to the definition of a liability in paragraph 3.1, we suggest that the reference to the outflow “of service potential or economic benefits from the entity” be changed to “of resources from the entity”. It is the resources that are transferred, not the service potential of those resources. Transferring of resources will include services.</p> <p>We consider it might also be useful to clarify that enforceability (in paragraph 3.7) also does not include “political coercion”.</p>	<p>See Agenda Paper 2A.1 for discussion on past event.</p> <p>Staff noted –not considered necessary.</p> <p>See Agenda Paper 2A.1 on little or no realistic alternative to avoid.</p>
009	A	Yes, we agree with the definition of a liability.	Noted.
010	B	We agree with the definition of what constitutes a liability. However, we believe that the definition should be broadened to include ‘provisions’ as this would capture items where only best estimates of future expense can be determined. In some countries ‘provisions’ represent a significant proportion of liabilities. For example, the Whole of Government Accounts for the UK (2010-2011) makes significant provisions for items such as clinical negligence claims, nuclear decommissioning costs and legal cases etc.	See Agenda Paper 2A1 on definition of a liability.
011	B	<p>You ask whether “<i>we agree with the definition of a liability and the definition of non-legal binding obligations and if not, how would you modify it</i>”</p> <p>We generally agree with the definition of a liability. We note that the definition does not indicate when the outflow of service potential or economic benefits from the entity will occur. We would consider adding “on settlement of the present obligation” at the end of the definition.</p>	<p>Staff noted but not considered necessary.</p> <p>.</p>
012	A	We agree with the proposed definition of a liability and have no suggestions for modifying it.	Noted.
013	C	<p>Recommend the definition be further defined to include the following:</p> <ol style="list-style-type: none"> 1. <i>Liabilities</i> are amounts owed to others relating to loans, extensions of credit, and other obligations arising in the course of business. 2. Implicit to the notion of a liability is the idea of an “existing” obligation to pay or perform some duty. 	See Agenda Paper 2A.1 on definition of a liability.
014	A	<p>ACAG agrees with the definition of a liability.</p> <p>However, ACAG does not agree with the view expressed in paragraph BC22 of the Basis for Conclusions that “distinguishing between conditional and unconditional obligations is not useful for the</p>	

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		<p>purpose of defining a liability because it is possible for conditional obligations to give rise to liabilities". Unconditional stand-ready obligations (which are liabilities) and conditional obligations (which may be liabilities in certain situations) are useful concepts, at least as guidance in determining whether a liability exists. The IPSASB's concern that obligations to stand ready to provide social benefits might be inappropriately recognized as liabilities in the statement of financial position is a recognition issue, which can then be addressed in the recognition section of the Framework (ideally) or at a standards level.</p> <p>Similarly, ACAG does not agree with paragraph BC26 that it would not be appropriate to use the term "performance obligation" in the Framework. The concept of performance obligations is fundamental to the upcoming IFRS on revenue recognition and therefore should also be discussed by the IPSASB in the context of the definition of a liability.</p>	<p>See Agenda Paper 2A.1 on recognition.</p> <p>See Agenda Paper 2A.1 on definition of a liability and definition of revenue.</p>
015	D	No further remarks.	N/A
016	C	<p>A liability is defined as "a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity." The ED also notes that liabilities include non-legal binding obligations when: (a) the government entity has indicated to other parties that it will accept certain responsibilities; (b) as a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and (c) the entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.</p> <p>The ED should clarify how the proposed definition of liabilities, and in particular the reference to non-legally binding obligations, relates to concepts of liabilities in IPSAS 1 (which does not explicitly mention non-legally binding obligations) and IPSAS 19 (which does) and whether IPSASB considers this to be a change or merely a reiteration of existing concepts, principles and practices.</p>	<p>Noted.</p> <p>See Agenda paper 2A.1 on definition of a liability.</p>
017	A	We agree with the definition of a liability.	Noted.
018	A	CIPFA agrees with the proposed definition of a liability.	Noted.
019	A	The Province agrees with the definition of a liability. A liability is a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.	Noted.
020	A	We do not have any technical objections to the proposed definition of a liability, however, as already mentioned in this and previous letters we urge the IPSASB to liaise with the IASB to ensure that differences between their respective frameworks are minimized in that they are limited to public sector	See Agenda Paper 2.1 for discussion of relationship with IASB Framework

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		specifics. With this one remark, we generally support the proposed definition.	project.
021	A	ICPAK is in agreement with the proposed definition and the attributes of what constitutes a liability.	Noted.
022	A	Yes, we agree with the proposed definition of a liability.	Noted.
023	C	<p>In our opinion, this definition is generally relevant to the public sector. However, the use of the controversial term 'past event' raises a similar concern of the difficulty to clearly establish the date of its occurrence as seen in the definition of an asset. I support the proponents referred to at BC27 to the ED's Basis for Conclusions that believe that "identification of a past event is not an essential characteristic of a liability . . . there may be many possible past events and that establishing the key past event is likely to be arbitrary". The opposing view that "identifying the key past event is necessary to determining when public sector liabilities should be recognized" is also acknowledged.</p> <p>Since the present obligation should be linked to an occurrence in the past, I believe that 'prior binding commitment' would be a narrower and less arbitrary reference point than 'past event', which would amend the definition to read:</p> <p><i>"A liability is a present obligation that arises from a prior binding commitment where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity".</i></p>	See Agenda Paper 2.1 on past event.
024	B	We agree with the proposed definition of a liability. However, we do propose that the definition be extended to cover also deferred outflows.	See Agenda Paper 2A.1 v for discussion on deferred inflows and deferred outflows and consequent impact on other definitions.
025	C	<p>We disagree with the definition of a liability because it introduces a recognition threshold that we believe is very high and is potentially inconsistent with IFRS. "Little or no realistic alternative" can be interpreted as a much higher threshold test than the threshold test of "expected" used by the IASB in IAS 37. The IASB uses a "virtually certain" threshold test to recognize contingent assets. "Little or no realistic alternative" can be interpreted as being closer to "virtually certain" than "expected."</p> <p>We suggest the definition is amended to mirror more closely the IAS 37 definition as follows: A liability is a present obligation of the entity arising from past events the settlement of which is expected to a result in an outflow from the entity of resources embodying economic benefits, or service potential, or both.</p> <p>We suggest the definition of a present obligation is also amended in line with our suggestion for a liability.</p>	See Agenda Paper 2A.1 for discussion on definition of liabilities.
026	B	Yes but:	

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		<p>The Conceptual framework should indicate that liabilities include contingent liabilities, a definition of them being welcome here, and indicate that they have to be distinguished from anticipations of future losses due to a past event. The accounting treatment of contingent liabilities is to be found in standards, and they are not components of the net asset term defined in the ED.</p> <p>Otherwise, the meaning of the definition of liabilities is weakened by the absence of a standard on “social benefits”, and uncertainty on the perimeter of the notion of liabilities.</p>	See Agenda Paper 2A.1 for discussion on definition of liabilities.
027	D	<i>No comment Noted.</i>	N/A
028	A	<p>We agree with the proposed definition of a liability.</p> <p>Paragraph 3.11 of the CF-ED2 provides four examples of early points in implementing a program or service at which a liability may arise. In addition to the early points exemplified in paragraph 3.11, we suggest that potential points at which a liability may arise, similar to those provided in paragraph 2.8 for a case of assets, should also be provided as follows:</p> <ul style="list-style-type: none"> • Claimants meet the eligibility criteria for the service to be provided; and • Claimants demand that service be delivered. 	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
029	A	<p>The Task Force notes that the proposed definition of a liability generally falls in line with definition of liabilities promulgated by IPSAS 1 as well Task Force comments on proposed definition of a liability in the CF-CP2, hence it is acceptable to the Task Force.</p> <p>It was noted that the Basis for Conclusions (pares. BC 21-26) discusses such types of obligations as conditional and unconditional obligations, stand-ready obligations and performance obligations, but these are considered by the IPSASB to fall outside the scope of the Conceptual Framework. The Task Force concurs with this approach. The Task force refers to its comments on CF-CP2 where it recommended to the IPSASB to take a conservative approach while exploring the possibility of expanding types of obligations which can be classified as liabilities. The Task Force submission stated that “many public sector organizations carry out tasks that directly impact lives of millions of people in various regions of the world, and hence they are subjected to increased level of scrutiny from donors, recipients and general public. These organizations also often have to divert their activities and resources from initial plan to address people’s needs triggered by unexpected events and problems, like natural disasters or new areas of military conflict. It will not be possible or practical to have a comprehensive list of all obligations of organizations of such scale while recognizing and measuring these liabilities completely and reliably, with reasonable cost/benefit balance. Therefore, the position of the Task Force is that IPSASB should only consider introduction of new or expanded concepts to this element of financial statements if there is an intention to supplement them with in-depth analysis for all preparers of</p>	

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		GPFSSs who wish to conform to the Conceptual Framework”.	Noted.
030	A	We agree with the definition of a liability as set out in the Exposure Draft.	Noted.
031	B	<p>The definition of liability appears to align with the key characteristics contained in the current IASB/AASB definition of liability. Hence, HoTARAC generally agrees with the definition of a liability, subject to the deliberations by the IASB. However, HoTARAC suggests removing the qualifier ‘little or no realistic alternative to avoid’ from the definition of a liability - this qualifier is part of the definition of a present obligation.</p> <p>HoTARAC recommends that the statement an entity has ‘little or no realistic alternative to avoid’ should read ‘has no realistic alternative’ or ‘little or no alternative’. HoTARAC is unclear on the reason for using two qualifiers on alternative; as if there was a realistic alternative for avoidance it is unclear how this could be a liability.</p> <p>Consistent with the views on the definition of an asset, HoTARAC does not consider a past event an essential element of a liability.</p> <p>Paragraph BC26 states it would not be appropriate to use the term ‘performance obligation’ in the framework, because such obligations are normally conditional and binding agreements vary between jurisdictions. HoTARAC would point out that performance obligations are not necessarily conditional and this would depend on the underlying contractual obligations. HoTARAC also questions the implication this will have for convergence with the impending IFRS on revenue (which will apply across many jurisdictions), being substantially based on the notion of performance obligations. In addition, BC26 canvasses only the singular basis (“performance obligation” approach) for allocation/recognition of revenue. Whilst this is omitted from the body of the draft framework, including in the Basis for Conclusions predisposes users towards the current IASB conceptual approach to revenue recognition in ED 222 [ED/2011/6]. This is preferable for consistency with the IASB revenue frameworks (except with respect to Leases), but fails to acknowledge other bases for proportional recognition of revenue over sales contract involving the transfer of goods or services over the long-term. Prescription of a singular method appears more appropriate in a revenue standard, rather than a framework document.</p> <p>Paragraph 3.4 states that “An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way”. Where a department is a division of a government, can one government department be obligated to another government department where both departments are Wholly-Owned Public Sector Entities of the one government? Further to this rhetorical question, one jurisdiction earlier provided feedback on ED 222 noting the inability of non-legal entities to enter into legally binding contracts as evidenced by examples of a body</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 on past event.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>The liability of one department to another would be shown as a liability in its statement of financial position matched by an asset of the other department and be eliminated on</p>

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		corporate being distinguishable from the relevant department (and the respective legal capacities of those entities). Given the legal capacity of a department and its indivisibility from government, a more robust mechanism than is currently embedded in paragraph 3.4 is necessary.	consolidation. No further action considered necessary.
032	A	Yes, I agree with definition of a liability.	Noted.
033	A	We agree with the definition of liabilities and non-legal binding obligations. In Canada, PSAB has a concept similar to non-legal binding obligations known as constructive obligations. We would like to point IPSASB to the discussion in Section 3200 of the Canadian Public Sector Accounting Handbook as it provides a fulsome discussion on this topic and robust guidance to assist preparers in appropriately interpreting and applying the guidance. Additional guidance as provided by PSAB is considered valuable where non-legal binding obligations are concerned due to the degree of judgment involved.	Noted –Staff will refer to CPSAH.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	C	<p>The definition of liabilities used in Paragraph 3.1 is not suitable for the characteristics specific to the public sector, particularly when accounting for non-exchange transactions. These are transfers that are part of the public sector's ordinary, routine activity.</p> <p>The transfers related to the State's remit as an economic and social regulator differ from routine transactions in the private sector because they are payments made to beneficiaries but unrelated to goods or services supplied by those beneficiaries.</p> <p>The key difficulty in determining the appropriate accounting treatment for these transactions lies in defining the triggering event that distinguishes between:</p> <ul style="list-style-type: none"> • present obligations, which must be recognised as liabilities, and • potential obligations, i.e. only potential liabilities, which must be indicated in the notes to the accounts. <p>The latest version of the ED raises this difficulty but does not provide an adequate response to it. Only a clear definition of the recognition criteria would resolve this difficulty.</p> <p>In this respect, we feel it important to stress that public entities financial statements differ from those of private organisations solely because of the specific characteristics of what these entities do. In particular, their financial statements are based on the going-concern and accrual principles, which are the same as those of private entities.</p> <p>According to these principles, the effects of the transactions should be recorded in the financial statements in the period in which they occur, even if the related inflow or outflow occurs in a different</p>	See Agenda Paper 2A.1 on definition of liabilities.

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 2 (a)</p>	STAFF COMMENTS
		<p>year. Conversely, the financial statements cannot record liabilities representing future expenses that will be committed by public entities as part of their routine activities. If such an approach were applied to the private sector, a business would have to set aside a provision for production costs that will be committed in future periods, on the grounds that this commitment is necessary to ensure continuity of business.</p> <p>The information recognised in the financial statements can be used to analyse the past performance of an organisation, but does not predict future performance.</p> <p>In France, the financial statement producer and the accounting standards setter have resolved the difficulty involved in defining the triggering event for transfers. The triggering event is considered to be the fulfilment of conditions ("service rendered"). For expenses related to transfers (generally on a multi-year basis), this means fulfilling all the conditions on which the beneficiary's entitlement is contingent, in the period relating to the fiscal year ended.</p> <p>Consequently, in the case of contingent transfers, if the beneficiary does not fulfil the conditions of eligibility for the benefit on the closing date of the fiscal year, the State has a commitment to that third party, and this information is indicated in the section dedicated to commitments in the notes to the State's financial statements.</p> <p>This is the case, for example, of multi-year transfers subject to annual means-testing. The amounts to be paid in future years are State commitments, not liabilities.</p> <p>The above arguments stress the importance of commitments in public accounting. We would therefore like the discussion on the definition of liabilities to continue, in order to develop the concept of commitments, which should be indicated in the notes to the statements.</p>	<p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>For decision by the IPSASB.</p>
036	B	<p>We agree in general with the definition of a liability as presented in this exposure draft. However, we would encourage the board to clarify better the notion of "little realistic alternative to avoid an outflow of service potential or economic benefit." In the paragraphs following the definition of a liability, this distinction is not explained any further and this could cause uncertainty as to when the definition of a liability is met. If the word "little" refers to the uncertainty of future events and the fact that one can never be certain (100%) but only virtually certain, then we believe it could be useful for preparers to add a short clarification in this respect to one of the paragraphs. As we don't believe that a difference with IFRS was intended in this respect, a clarification would eliminate doubts.</p>	<p>See Agenda Paper 2A .1 on definition of liabilities.</p>
037	C	<p>We do not support the proposed definition of a liability as we consider that the inclusion of 'little or no realistic alternative to avoid' is more in the nature of a recognition criteria than a definition. This is because 'little or no realistic alternative to avoid' is specifically applicable to the entity assessing the liability and therefore should not be used in a definition.</p>	<p>See Agenda Paper 2A.1 on definition of liabilities.</p>

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
038	C	<p>Before we get into the more specific question asked in SMC 2, we want to emphasize our strong support for the IPSASB re-starting its project on social benefits. We believe that the development of the elements phase of the conceptual framework is at an adequately mature stage for the Board to re-commence its discussion on social benefits.</p> <p>Further, given that the key public sector issue in the liabilities area is whether a government has a liability for future social benefit payments, we would have expected clearer discussion in the conceptual framework. Nonetheless, we find the discussion of non-legal binding obligations helpful for users dealing with such a difficult issue. If the Board feels that it is not in a position to discuss the nature of social benefits within the conceptual framework at all, we would prefer the Board to avoid ambiguity in the discussion within the non-legal binding obligation section. In particular, paragraph 3.12, second sentence, appears to be suggesting that an obligation does not arise until a claimant has met the eligibility criteria. But this does not address:</p> <ul style="list-style-type: none"> • Situations where the meeting of that criteria is outside the entity's control – for example, if payment of a pension is dependent on the individual reaching the specified retirement age, it's outside the government's control whether or not citizens would live to reach the required age. • Let's say a person meets the eligibility criteria (e.g. reaches retirement age), does that mean there is a liability for all future pension payments? Or has the Board taken the view that a person must keep on meeting that criteria (e.g. stay alive) for a liability for future payments to exist? <p>Although some might argue that the points in the bullets above are standards-level questions, it's one of the most significant unresolved issues in the public sector; we would have expected the conceptual framework to discuss the principles surrounding such 'non-enforceable' obligations (social benefits encompassing for example health care and childcare benefits) that a government has to her citizens.</p> <p>If the Board should decide that future social benefit payments, especially for pensions, are not present obligations of governments, this conclusion should be reconciled to why there is acceptance that entities have a present obligation for employee pension payments.</p> <p>Also, the discussion of pensions above relate to the broader question of conditional versus unconditional obligations – if a future payment is subject to the counterparty first meeting specified conditions, does that mean that a present obligation does or doesn't exist? What if the meeting of those conditions is totally outside the entity's control?</p> <p>Regarding the relationship between funding and the existence of a present obligation, paragraph 3.12(c) does not address the question of this link. Some proponents argue that future social benefit payments are not a present obligation because they are conditional upon the availability of funding at the time. In our view, the availability of funding to settle the obligation generally has no impact on whether a present obligation exists. An exception would be where a lack of funding is both likely and well-known, such that</p>	<p>Noted</p> <p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>See Agenda Paper 2A.1 on definition of liabilities.</p>

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		<p>other parties do not expect the entity to be able to settle. In effect, this situation relates to paragraph 3.10(b) – for example, if it's well known that maintaining the current level of spending on pensions is unsustainable in the long term, it's likely that citizens may not expect to receive a pension (or the same amount of pension) in the future.</p> <p>a) We generally agree with the definition but suggest some wording modifications to clarify what we thought is the intended meaning of the definition. The definition of liability could be better expressed if the reference to an 'outflow of service <i>potential</i> or <i>economic benefits</i>' be changed to 'outflow of <u>resources (including services)</u> from the entity'. It is the resource itself that is capable of being transferred and not the service potential or economic benefits of a resource.</p> <p>Paragraph 3.7 on economic coercion – we suggest that the Board consider expanding the discussion to include the issue of political coercion, i.e. just because a government might feel politically compelled to do something, that doesn't mean that a present legal obligation exists. For example, pledging to provide funds to another party often does not give rise to a legal obligation to provide that funding.</p> <p>The discussion of sovereign power in paragraph 3.9 is helpful, as this is a key difference between the public and private sectors. However, paragraph 3.9 appears inconsistent with paragraph 3.12(b). While paragraph 3.9 indicates that liabilities exist based on current legislation, paragraph 3.12(b) seems to imply that liabilities don't exist if the government can change the legislation before the obligation has to be settled. The discussion in paragraph 3.12(b) is also inconsistent with BC33.</p>	<p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>See Agenda Paper 2A.1 on definition of liabilities.</p> <p>Noted. Inconsistencies to be removed.</p>
039	C	<p>The AASB generally agrees with the proposed definition of a liability. Its suggestions for modifying the definition (and related guidance) are set out below.</p> <p>Association of an element with the entity</p> <p>Consistent with its views regarding the definition of an asset, the AASB considers that, ideally, the definition of a liability should be broad, and (unlike the IPSASB's proposed definition) should exclude factors that associate the element with an entity (such as whether there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity) – such factors should form part of the recognition criteria instead. The reasons for this view of the AASB are given in the comments above on Specific Matter for Comment 1, in the context of the definition of an asset.</p> <p>However, the AASB notes that the latest tentative thinking of the IASB in its Conceptual Framework project is (consistently with the IPSASB's proposal) to include factors that associate the element with an entity in the definition of an asset. Although the latest draft definition of a liability tentatively decided by the IASB does not refer to a particular factor associating that element with an entity—namely, whether there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity (or some other factor compelling such an outflow from the entity)—it might be argued that adding such a reference would be a logical consequence of the above-mentioned tentative IASB</p>	<p>See Agenda Paper 2.1for discussion of</p>

[illegible]

R#	C #	RESPONDENT COMMENTS SMC 2 (a)	STAFF COMMENTS
		<p>project is (consistently with the IPSASB's proposal) to include a reference to a 'past event' in the definition of a liability. The AASB suggests monitoring the outcome of the IASB's further deliberations on this issue. If the IASB's forthcoming Conceptual Framework Discussion Paper were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal. However, because the AASB would not consider such a proposal to be a fundamental concern, it would consider it more important that the IPSASB's and IASB's definitions of a liability are consistent in this respect.</p> <p>Other aspects</p> <p>Conditional and unconditional obligations</p> <p>The AASB is not convinced by the statement in paragraph BC22 of the Basis for Conclusions on the IPSASB ED that:</p> <p style="padding-left: 40px;">“distinguishing between conditional and unconditional obligations is not useful for the purpose of defining a liability because it is possible for conditional obligations to give rise to liabilities”.</p> <p>The AASB notes that the IASB has tentatively decided (in its projects on a review of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, and on revenue recognition and insurance contracts) that only unconditional obligations are liabilities, although some unconditional obligations (i.e. obligations to stand ready to transfer economic benefits if an uncertain future event occurs) would be accompanied by conditional obligations to transfer economic benefits. The AASB notes that, in the IASB's Conceptual Framework project, the IASB has tentatively reassessed its previous tentative decision that only unconditional obligations are liabilities (see <i>IASB Update</i>, April 2013), and suggests monitoring the outcome of the IASB's further deliberations on this issue and liaising with the IASB with a view to reaching a common conclusion.</p> <p>Performance obligations</p> <p>The AASB is not convinced by the statement in paragraph BC26 of the Basis for Conclusions on the IPSASB ED that:</p> <p style="padding-left: 40px;">“because performance obligations are normally conditional obligations and because the issues in determining whether such obligations give rise to liabilities is (sic) dependent upon the terms of particular binding agreements and may vary between jurisdictions, it would not be appropriate to use the term ‘performance obligation’ in the Framework”.</p> <p>The AASB notes that the notion of performance obligations is fundamental to the upcoming IFRS on revenue recognition, and that this aspect will be an issue for the IPSASB if and when it revises its Standards (e.g. IPSAS 9 <i>Revenue from Exchange Transactions</i>) in light of that IFRS. Indeed, the AASB is developing an exposure draft (ED) of a Standard for not-for-profit entities based on the IFRS on revenue recognition, and would be willing to share the outcome of that ED with the IPSASB. The AASB recommends that the IPSASB reviews the statement quoted above when finalising its Conceptual</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>See Agenda Paper 2.1 for discussion</p>

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		Framework chapter on Elements and Recognition.	of relationship with IASB Framework project.
040	A	Yes - We agree with the definition of a liability.	Noted.

Specific Matter for Comment (SMC) 2 (b):

Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	002, 003, 004, 005, 007, 008, 010, 011, 012, 014, 019, 021, 022, 023, 024, 030, 031, 032, 033, 034, 040	21
B – PARTIALLY AGREE	016, 025	2
C – DISAGREE	001, 006, 009, 013, 015, 017, 018, 020, 026, 029, 035, 037, 038, 039	14
SUB-TOTAL OF THOSE PROVIDING COMMENTS		37
D – DID NOT COMMENT	027, 028, 036	3
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
001	C	<p>The FMSB is concerned about the IPSASB's definition of a liability as provided in Paragraph 3.1 of the ED. Paragraph 3.1 defines a liability as, "... a present obligation that arises from a past event where there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity." We believe the phrase "... little or no realistic alternative..." would raise more questions than it would answer.</p> <p>Governments, especially national governments, have sovereign powers that provide them with a whole host of alternatives, all of which are within the realistic range. We do note and agree with the second sentence in paragraph 3.9 stating that sovereign power should not be used as a rationale for non-recognition; however, we believe that the definition would be effective without this phrase. For example, the definition could be as follows: "a liability is a present obligation that arises from a past event requiring a government entity to deliver services or economic benefits to another entity at a determinable date, when a specific event occurs, or on demand." The key liability concept is that a present obligation exists based on a past transaction or event, not whether the government has a "realistic alternative." The government may well have a "realistic alternative" and yet have a liability based on other imperatives.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of a liability.</p> <p>See Agenda Paper 2A.1for discussion on definition of a liability.</p>

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002	A	Yes, we agree with the description of a non-legal binding obligation in paragraph 3.10	Noted.
003	A	We note at specific matter for comment 5, however, that the notion of a non-legal binding obligation is similar to items proposed for deferred inflows. In this case, we would prefer that the liability included non-legal binding obligations as proposed.	See Agenda Paper 2A.1 for discussion on definition of liabilities.
004	A	We agree.	Noted.
005	A	Yes. Deferred outflows should also be treated as non-legal binding obligations.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
006	C	<p>The Council believes that obligations that result from legal provisions ("legal binding obligations") should not be placed on the same footing as those that do not ("non-legal binding obligations"). Only the former ("legal binding obligations") should give rise to recognition of a liability, because the Central Government or public entity cannot avoid these obligations due to laws or regulations in force.</p> <p>However, it is satisfied with the analytical effort in the Exposure Draft to define the concept of a "non-legal binding obligation" as opposed to "legal binding obligations".</p> <p>More precisely, as above-mentioned, the Council agrees with the definition for "legal binding obligations". The Council considers that only these obligations comply with the definition of a liability, as they rely on legal or contractual schemes, and are recognized as such.</p> <p>As regards "non-legal binding obligations", the Council disagrees with the proposed definition, as this notion is not precisely defined. It seems to include potential commitments, the scope of which is insufficiently described. This dissenting view is based on the fact that the concept of a "non-legal binding obligation" was derived directly from the provisions of IAS 37 section IN3, which applies to companies and concerns constructive obligations, but, as opposed to IAS 37, without restriction. In fact, in IAS 37, the conditions for recognition of implicit obligations are cumulative. The essential point that the three conditions mentioned (3.10 a) b) and c)) are also cumulative should be stated in the Conceptual Framework.</p> <p>The Council also points out that implementing these conditions is more complex in public entities than in private companies. In this respect, the Council regrets that the Conceptual Framework does not deal with Central Governments' special powers to limit some of their obligations by changing the law.</p> <p>Given the difficulties related to the definition of "non-legal binding obligations", the Council is of the view that, despite the interest of the distinction between "legal" and "non-legal", it doesn't permit to easily identify the recognition criteria for liabilities.</p> <p>Eventually, with respect to accounting information, a clear distinction has to be made, between "legal</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		<p>binding obligations” and “non-legal binding obligations”. The former, as liabilities, have to be recognized, and may also trigger disclosures in the Notes.</p> <p>The latter, which comply with a more restrictive definition – the three criteria being cumulative - may also be disclosed in the Notes, provided that a contingent commitment of the Central Government or of the public entity exists. The Council is of the view that the other “non-legal binding obligations”, in line with the definition of the Exposure Draft, have the nature of general duties rather than commitments. They shouldn’t be disclosed in the Notes.</p> <p>Nonetheless, as already pointed out in the comments made to the former consultations, the Council is not in favor of issuing a comprehensive document that would include reporting on the Long-Term Fiscal Sustainability of Public Finances at macro-economic level. The “non-legal binding obligations” could usefully fall into the scope of this report, which would provide figures on the sustainability of public programs and public policies. But, as above-mentioned, the Council believes that this information belongs to a separate process outside the area of standard setting accounting.</p>	See Agenda Paper 2A.1 for discussion on definition of liabilities.
007	A	The ED notes that some liabilities can be measured only by using a substantial degree of estimation and they are regarded as provisions. In some countries, such provisions are not considered to be liabilities due to the concept of a liability only allowing the inclusion of amounts that can be established without the need to make estimates. We support the Board proposal on a broader definition of a liability which would include provisions (for instance provisions to cover pension obligations or warranties).	Noted.
008	A	<p>We agree with the description of non-legal binding obligations, taking into account that the point in time when a non-legal binding obligation becomes a liability may be jurisdiction-specific.</p> <p>However, if the IPSASB proceeds with the proposal to define deferred inflows and deferred outflows as separate elements, we suggest that the Framework clarifies when an entity should recognize an inflow of funds as a deferred inflow and when an entity should consider the attributes of the non-legal binding obligation in paragraph 3.10 of the ED and recognize a non-legal obligation/liability in respect of that inflow of funds. (Also see our comments under Specific Matter for Comment 5.)</p> <p>We suggest replacing the word “obligations” in the second sentence of paragraph 3.12 with “expectations by stakeholders”.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
009	C	We would re-name these definitions. The phrase “non-legal binding obligations” is cumbersome. We propose using the terms “legally binding” obligations and “other binding” obligations. We do not believe that the name “non-legal binding obligations” provides a better description of these obligations than just using the phrase “other binding obligations”. The types of obligations envisaged by “other” or “non-legal binding” only becomes clearer once paragraph 3.10 has been read.	See Agenda paper 2A.1 for discussion

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		Alternatively, we propose rephrasing the term “non-legal binding” to “non-legally binding”.	on definition of liabilities.
010	A	We agree with the description of non-legal binding obligations.	Noted.
011	A	<p>We agree with the definition of non-legal binding obligations. We acknowledge the essential need to determine the point at which a non-legal obligation becomes binding and gives rise to a liability. In practice it is likely that public sector entities will have to actively review and monitor delivery against legislated commitments to identify non-legal binding obligations.</p> <p>We note however, that the terms legal versus non-legal could be interpreted differently in practice. We therefore recommend using other terms for example, stating that the obligation occurred as a result of a contract or as a result of the government acknowledging its responsibility to compensate the public for a particular damage (for example, damage because of a hurricane). The government may not be responsible for this but elected to support the affected community by compensating the citizens for part of their losses. One could argue that the government, in acknowledging that it will pay out compensating damages for this type of event, it became a legal obligation).</p> <p>We also note that definitions relating to non-legally binding obligations should not be too restrictive at the framework level and further clarification/refinement be provided at a standards level.</p> <p>Furthermore, we note that paragraph 3.12 is taking a view as to what a liability is, but is actually in principle indicating when a liability should be recognized, not when it exists.</p> <p>We do not agree with the reasons put forth for not referring to stand ready performance obligations - if the issue is the definition is too broad, then we suggest this be refined at a standard level.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>Noted.</p> <p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
012	A	We also agree with the description of non-legal binding obligations. The discussion of attributes that may give rise to a non-legal binding obligation are clear and useful as is the specific example of a circumstance that may give rise to a non-legal binding obligation.	Noted.
013	C	Recommend removing the term “Non-legal Binding Obligations”. The creation of expectations by government officials, past practices or specific current statements should not be enough to create an obligation and the difficulty in interpreting these items would make the definition difficult to implement. This could also potentially create a situation in which government officials override legislators' authorization of expenses and revenues.	See Agenda Paper 2A.1 for discussion on definition of liabilities.
014	A	ACAG agrees with the description of non-legal binding obligations. We agree that liabilities can arise from non-legal binding obligations as explained in paragraph 3.10 of the Exposure Draft.	Noted.

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
015	C	The approach and definition of the so-called non-legal binding obligations is very complex and less transparent. This section needs to be clarified at least by including a few practical examples.	See Agenda Paper 2A.1 for discussion of definition of liabilities.
016	B	<p>We do understand the rationale for including non-legally binding obligations in the definition of liabilities under certain circumstances. However, we would recommend being more circumscribed and precise as to what those circumstances are, i.e., the extent of and limitations to the applicability of the principle of liabilities arising from non-legal obligations. To elaborate on this last point, the discussion on non-legally binding obligations in paragraphs 3.11 to 3.12 could in particular be clarified by:</p> <ul style="list-style-type: none"> discussing in more detail the possible “natures” of these obligations, and the consequences on the point at which such obligations should be recognized. In particular, a discussion of the differences between obligations deriving from exchange and non-exchange transactions would be necessary; and providing a clearer and more comprehensive set of indicators examples, though recognizing that it will not be possible (or desirable) to anticipate every eventuality. <p>In addition, terms such as “little or no realistic alternative,” or “valid expectation,” “certain responsibilities” are not defined or explained and would require interpretations to be exercised by the preparers of the financial statements, or by auditors. We are concerned that this could present difficulties, particularly in countries with capacity constraints. This could also lead to a lack of comparability between countries. The ED should therefore discuss these terms in more depth and provide examples to facilitate understanding.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
017	C	However the terms legal and non-legal obligations need to be interpreted in the context of the public sector. The government has the sovereign power to repudiate obligations and can also regulate a subordinate entity’s activity. We believe that if the government regulates a future activity to a subordinate entity it also has a responsibility for their finance (e.g. by future taxes). If standards don’t consider fundamental characteristic circumstances as the power to repudiate obligations within the public sector many future activities could be an obligation and meet the definition of a liability, despite the government being able to avoid settling the obligation.	See Agenda Paper 2A.1 for discussion on definition of liabilities.
018	C	As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
019	A	The Province agrees with the description of non-legal binding obligations.	Noted.
020	C	The description of non-legal binding obligations does not sufficiently differentiate the factors that would	

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		<p>be considered fundamental in determining the stage at which a liability shall be said to exist, i.e., at which point in time the entity has little realistic alternative to avoid settlement, and thus the obligation has to be classified as binding the entity (in a non-legal sense). A discussion of what the terms “little” and “realistic” are intended to mean in this context would be helpful.</p> <p>We find the indicators listed in paragraph 3.12 unhelpful, and in the case of (c), the last sentence is misleading. If the definition of a liability is met, the absence of a budgetary provision can never be a reason for not meeting the definition of a liability. Using the word “may” implies that sometimes this could be the case, and using the word “recognition” misses the issue – the guidance is about definition. On balance we suggest this last sentence be deleted.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
021	A	We also agree with IPSASB decision to distinguish between legal and non-legal binding obligations as these terminologies makes classification more understandable and eliminating any ambiguity that would arise as explained in BC 21.	Noted.
022	A	Yes, we agree with the description of non-legal binding obligations. Although written at a high level, it is generally consistent with the descriptions of non-legal binding obligations found in other financial reporting frameworks currently used by Canadian public sector entities (PSAS and IFRS).	Noted.
023	A	We believe that the description of non-legal binding obligations is clear and does not require modification.	Noted.
024	A	We agree with the description of non-legal binding obligations.	Noted.
025	B	<p>We consider that in principle it matters not whether an obligation is legal or non-legal. The legality of an obligation provides auditable documentation of the enforcement rights to the recipient of the economic benefits or service potential; it does not necessarily crystallize recognition of the obligation. However, we agree that non-legal obligations can be difficult for entities to recognize and therefore the attributes set out in paragraph 3.10 are important features for the standard to provide.</p> <p>We do not consider paragraph 3.10c) to be necessary because it is covered in the definition of a present obligation in paragraph 3.2. We consider the rest of 3.10, 3.11 and 3.12 to be appropriate.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
026	C	<p>Disagreement.</p> <p>Non legal or contractual binding obligations may occur, but the ED lists three criteria among which some are inaccurate. It is not clear if, for the recognition of a non-legal binding obligation, they have to be taken as a whole or only one out of three.</p> <p>The Cour des Comptes strongly opposes the b) criteria (“valid expectation”). Public entities are subject to infinite expectations, campaign pledges or political, bargaining and diplomatic strategies. The</p>	Wording to be clarified.

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		<p>recognition of a “valid expectation” in financial statements could alter the position of the entity itself in challenging of expectations. Moreover, public entities have the ultimate power to change legal rules, so the recognition of a non-legal binding obligation in the financial statements would interfere with the Legislator prerogatives.</p> <p>The Cour des Comptes is also not at ease with the criteria: “a) the entity has indicated to other parties by an established pattern of past practices, published policies or sufficient current public statement ...” because this creates a new category of rules in a field where the Legislator or the legal authorities must proceed under formal ways to create obligations, other than “indications”, respecting constitutional, budgetary, administrative and other procedures,.</p> <p>The criteria: “c) little possibility to avoid” is less controversial, but how will it match with secret (and unavoidable) obligations in public affairs linked to sovereignty?</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
027	D	<i>No comment noted.</i>	N/A
028	D	<i>No comment noted.</i>	N/A
029	C	<p>IPSASB considers the term “constructive obligation” used in standard setting literature globally, including IPSAS, to be “difficult to interpret and apply in the public sector context” (BC 21). Therefore the Board proposes to focus on defining legal and non-legal binding obligations as a more straightforward approach.</p> <p>Legal obligation is a well-established concept which, according to IPSAS 19, “is an obligation that derives from:</p> <ul style="list-style-type: none"> (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law. <p>It was noted that the CF-ED2 also proposes to treat as legal those binding obligations which are created in jurisdictions where government and public sector entities cannot have legal obligations but where there are alternative processes with equivalent effect.</p> <p>Constructive obligation, as defined by IPSAS 19, “is an obligation that derives from an entity’s actions where:</p> <p>By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and</p>	

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		<p>As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities" (para.18).</p> <p>In defining non-legal binding obligation the CF-ED2 borrowed above definition of the constructive obligation from IPSAS 19 and added a third attribute, as follows:</p> <p>"(c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities" (Para. 3.10)</p> <p>As IPSASB acknowledged that the term "constructive obligation" was difficult to interpret and apply in a public sector, the Task Force is not convinced that by adding a third attribute to the definition the CF-ED2 resolved the problem with the application of the term "constructive obligation" or "non-legal binding obligation" in public sector. In addition, the dimension of having 'no realistic alternative to avoid settling the obligation' is not completely new and is currently used in the Glossary of Defined Terms as well as in IPSAS 19 to define the "obligating event" (Para. 18). The same dimension is also part of the new definition of a liability proposed by the CF-ED2 and appears to be the only rephrased part of both definitions when compared to existing IPSASs. This increases the importance of understanding the augmented role of this dimension in the Conceptual Framework and its application in the public sector.</p> <p>CF-ED 2 attempts to include indicators that are likely to impact on decision whether or not the entity has little or no realistic alternative to avoid outflow of service potential or economic benefit, but the discussion is mainly focused on examples applicable to governments and remains at a highly theoretical level, which brings preparers of the GPFs back to the same problem as encountered with the use of the term "constructive obligation".</p> <p>The Task Force notes that assessment of enforceability of legal and non-legal binding obligations has not been sufficiently addressed by the CF-ED2 and recommends that this issue be rectified. The CF-ED2 would also benefit from inclusion of examples of legal and non-legal binding obligations applicable to public sector entities other than governments.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
030	A	We recognise the difficulties that the IPSASB has identified with the use of the term 'constructive' in the public sector and therefore agree with the description of non-legal binding obligations	Noted.
031	A	HoTARAC agrees with the description of non-legal binding obligations and has no further comments.	Noted.
032	A	Yes, I agree with the description of non-legal binding obligations.	Noted.
033	A	We agree with the definition of liabilities and non-legal binding obligations. In Canada, PSAB has a concept similar to non-legal binding obligations known as constructive obligations. We would like to point	

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		IPSASB to the discussion in Section 3200 of the Canadian Public Sector Accounting Handbook as it provides a fulsome discussion on this topic and robust guidance to assist preparers in appropriately interpreting and applying the guidance. Additional guidance as provided by PSAB is considered valuable where non-legal binding obligations are concerned due to the degree of judgment involved.	Noted. Staff will refer to the PSAB guidance.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	C	<p>According to the ED, the concept of non-legal binding obligations refers to liabilities other than those relating to legal and contractual obligations. This kind of obligations can be considered as a liability if:</p> <ul style="list-style-type: none"> • The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities; • As a result of such indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and • The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities (ED §3.10). <p>However, the subsequent paragraphs (§3.11 and §3.12) show that this approach does not make a clear enough distinction between present obligations, which must be recognised as liabilities, and potential liabilities, which should be indicated in the notes.</p> <p>Moreover, unless it is covered by a legally binding provision, recognising this type of liability or commitment would contravene the principle of the rule of law, whereby an obligation can be enforced only by a law or contract.</p> <p>In light of the foregoing, we do not think the distinction between legally binding and non-legally binding requirements is sufficient to determine the recognition criteria for a liability. We think the most relevant approach for determining the triggering event is derived from the rules on executory contracts and is based on the eligibility criteria. This approach is mentioned briefly in Paragraph 3.12.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
036	D	<i>No comment noted.</i>	N/A
037	C	<p>We also consider that the definition of a liability should encompass 'stand ready obligations'. Noting that we disagree with the discussion in BC24 that states that the notion of stand-ready obligations 'does not work well in the public sector' and that it 'would not provide a sound basis for future standard setting'.</p> <p>We consider that the 'social benefits obligation' potential for liability recognition may be the issue that the IPSASB is trying to avoid. We do not consider the elements need to change for this one issue, as guidance on this issue can be developed at the standards level.</p>	See Agenda Paper 2A.1 for discussion on definition of liabilities.

R#	C #	RESPONDENT COMMENTS SMC 2 (b)	STAFF COMMENTS
		Further, we note that the last sentence in BC26 states that 'because performance obligations are normally conditional obligations, it would not be appropriate to use the term "performance obligation" in the Framework'. We also disagree with this comment as it is based on a mistaken presumption that performance obligations are conditional obligations. We also note that performance obligations are fundamental to the upcoming IFRS on revenue recognition, which is yet to be considered by the IPSASB.	See Agenda Paper 2A.1 for discussion on definition of liabilities.
038	C	<i>Respondent 038 has included their response for SMC 2 (b) together with SMC 2 (a). Please see SMC 2 (a) for a summary of their response.</i>	See SMC 2 (a)
039	C	<p>As noted above in its comments on Specific Matter for Comment 2(a), the AASB considers that, ideally, the definition of a liability should exclude factors that associate the element with an entity (such as whether there is little or no realistic alternative to avoid an outflow of service potential or economic benefits from the entity). 'Non-legal binding requirements' (as referred to in paragraph 3.2 of the IPSASB ED) are another example of factors that associate the obligation with an entity, because they are a mechanism for enforcing performance of the entity's obligation.</p> <p>Therefore, the AASB's comments below on the description of 'non-legal binding obligations' [as referred to in Specific Matter for Comment 2(b)] are conditioned by the caveat above.</p> <p>The AASB generally supports the description of 'non-legal binding obligations' in paragraphs 3.10 – 3.12 of the ED. Its main concern is in relation to the related comment in the sixth sentence of paragraph BC32 that:</p> <p style="padding-left: 40px;">"In assessing whether a non-legal obligation gives rise to a liability the availability of funding to settle the obligation may be a persuasive indicator."</p> <p>The AASB disagrees with that comment. The AASB acknowledges that, in some contracts, the receipt of payment in respect of a promise to perform can be the event that makes that promise unconditional – however, it considers that, even in such cases, it would be unnecessary and inappropriate to focus on funding. Instead, one should focus simply on whether an unconditional promise exists. Moreover, for 'non-legal obligations', which need not involve an identified counterparty, it is not clear why funding would be a persuasive indicator of a liability's existence. (The AASB notes that related paragraph 3.12(c) of the IPSASB ED also discusses the relationship between funding and present obligations, but seems much more equivocal than paragraph BC32 on this issue.)</p> <p>As a matter of drafting, the AASB suggests referring to 'binding obligations that are not legally binding' instead of 'non-legal binding obligations'. This is because:</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 2 (b)</p>	STAFF COMMENTS
		<p>(a) 'non-legal' literally means illegal. 'Illegal' is apparently not the intended meaning; however, 'non-legal' might be translated as 'illegal'; and</p> <p>(b) if the intended meaning is 'not legally binding obligations', 'non-legal' is less clearly (than 'legally') an adjective that pertains to 'binding', and thus is less easy to read than the alternative wording suggested above.</p>	<p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p>
040	A	<p>Although we do not like the term 'non-legal binding obligation' and would prefer the use of 'constructive obligation' we are prepared to tolerate it on the understanding that it would not change the actual application of a constructive obligation</p>	<p>Noted.</p>

Specific Matter for Comment (SMC) 3:

Do you agree with the definition of revenue? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 010, 020, 028, 030, 032, 033, 034	10
B – PARTIALLY AGREE	006, 011, 012, 017, 022, 027	6
C – DISAGREE	003, 005, 007, 008, 009, 013, 014, 015, 018, 019, 021, 023, 024, 025, 026, 029, 031, 035, 037, 038, 039, 040	22
SUB-TOTAL OF THOSE PROVIDING COMMENTS		38
D – DID NOT COMMENT	016, 036	2
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
001	A	The FMSB agrees with the definition of revenue proposed.	Noted.
002	A	Yes, we agree with the definition of revenue.	Noted.
003	C	<p>As noted in our submission in 2011 to the prior IPSASB Consultation Paper, we believe that the statements of revenue and expenditure should include other comprehensive income so that users can appreciate a layering of performance – items that have occurred due to changes in assets and liabilities (in value or recognition) and items that are a result of ‘trading’ (ordinary course of business). Therefore, we prefer definitions of revenue and expenses which encompass all changes in value of assets and liabilities as well as from operations, but we do not agree with the need for new elements. (See our comments on Specific Matter for Comment 5.)</p> <p>We note (from BC38) the IPSASB decided that gains and losses from trading and gains and losses outside the ordinary course of operations are not separate elements. Nevertheless, we believe that the introduction of deferred inflows and outflows does introduce new elements for a portion of this, and (as noted below) we believe that the issue which we understand has led IPSASB to introduce the new elements is best addressed through presentation, rather than through new elements.</p>	See Agenda Paper 2A1 for discussion on revenue.

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
		We note the statement at paragraph 4.7 that the difference between revenues and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance. We think this statement should be given greater prominence and be elaborated further if IPSASB maintains its current approach to defining revenue and expenses. However we think that the introduction of the new elements fails to meet the key objective which lies in this statement. That is because the surplus or deficit includes all other elements of comprehensive income (which, notwithstanding the IASB and IPSASB's failure to develop coherent and consistent requirements regarding such items, are generally items which will confound the messages about the current reporting period). Furthermore the requirement that inflows and outflows relating to future reporting periods are treated within revenues and expenses (and not as deferred items) creates a significant degree of arbitrariness in the application of the requirements and the meaning therefore conveyed by the surplus or deficit.	See Agenda Paper 2A1 for discussion on revenue.
004	A	We agree.	Noted.
005	C	As proposed, ownership contributions should not be included in revenue. But increases in deferred inflows and decreases in deferred outflows should be included, because they are revenues. Because, as mentioned above, deferred inflows belong to revenues, Heading b) should be excluded.	See Agenda Paper 2A1 for discussion on revenue.
006	B	<p>The Council is pleased to see the changes in this definition compared with the prior Consultation Paper, but still finds that it falls short. The Council would like to see the concept of economic flows given greater prominence, to make it clear that revenue not only stem from balance sheet variations.</p> <p>The Council notes that as regards revenue, certain major characteristics of the public sector must be considered, particularly the existence of sovereign revenue. This type of revenue is specific to public entities and is their main resource. It differs from other types of revenue because in theory there are no direct costs associated with it.</p> <p>Concerning the concept of ownership contributions as applied in the definition of revenue, the Council wishes to point out that in the public sector, this concept is far less frequently encountered than in the private sector and requires explanation. In general, the Council questions whether, in the Exposure Draft, the revenue recognized as ownership contributions corresponds to capital contributions or to the revenue resulting from capital contributions, i.e. for example dividends.</p> <p>The Council also recommends specifying the triggering event for revenue. With this in mind, it advocates indicating that revenue is recognized as soon as the conditions for exercising the beneficiary's entitlement have been fully met.</p>	<p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>Not considered necessary to analyse different types of revenue.</p> <p>Note –there would be costs of collection.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
007	C	<p>As it will be seen from our response to question 5, we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.</p> <p>Therefore a possible definition of revenue, retaining the existing wording but removing the references to deferred inflows and outflows, would be “Inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions”.</p> <p>As discussed later, we believe that any appropriate deferral of revenue recognition can be achieved using the definitions of assets, liabilities, expenses and revenue alone, by further consideration of the control criteria for these transactions.</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
008	C	<p>Consistent with our discussion in the covering letter and in Specific Matter for Comment 5 regarding deferred inflows and deferred outflows, we do not agree with the definition of revenue.</p> <p>We consider that revenue should be defined as all inflows during the current reporting period, other than ownership contributions, which increase the net assets of an entity.</p> <p>We consider that the proposed definition of revenue (which excludes increases in deferred inflows and includes inflows during the current reporting period that result from decreases in deferred inflows) will potentially result in revenue being misstated because we do not consider that decreases in deferred inflows are revenues. The proposed adjustments to revenue relate only to a subset of transactions that could be defined as deferred inflows (i.e. those relating to non-exchange transactions associated with specified future periods). We query the usefulness of such a revenue figure as an indicator of the performance of an entity for the period, given that the costs of any related performance for the deferred inflows are not necessarily associated with those periods. (Also see our comments on deferred inflows and deferred outflows under Specific Matter for Comment 5.)</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
009	C	<p>We do not agree with the definition of revenue, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.</p> <p>Consequently, we propose amending the revenue definition as follows:</p> <p>Revenue is (a) inflows of economic benefits or service potential during the current reporting period, which increase the net assets of the entity, other than (i) ownership contributions; and (ii) increases in deferred inflows; and (b) inflows during the current reporting period that result from decreases in deferred inflows.</p> <p>If the definition of revenue is retained, we suggest the following amendments:</p> <ul style="list-style-type: none"> • Part (a) - A reference should be added to inflows of “economic benefits or service potential”. • Part (b) – It is unclear whether decreases in deferred inflows are “inflows during the current reporting period”? As such we suggest referring only to “decreases in deferred outflows” in part 	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
		<p>(b).</p> <p>We have noted in BC 38 that the Board decided not to separately define gains and losses from revenues and expenses. While we agree that gains and losses are not separate elements, we are of the view that there is merit in considering whether these items should be disclosed separately from revenue from operating activities. Gains and losses typically do not arise from recurring transactions, even though these may be part of an entity's operations (for example, it could be argued that disposing of assets at the end of their useful lives is part of an entity's operations). If these gains and losses are included with revenues and expenses that are recurring, the predictive value of the information may be compromised. Consequently, we propose that the Board consider separate presentation for gains and losses at a Standards level.</p>	See Agenda Paper 2A1 for discussion on revenue.
010	A	Agree.	Noted.
011	B	<p>You ask whether "we agree with the definition of revenue and if not how would we modify it."</p> <p>The current definition of revenue in the conceptual framework refers to "inflows" which increase the "net assets of an entity."</p> <p>We note that the definition refers to inflows versus "gross inflows" as set out in the IPSAS on Revenue. The revenue definition in the relevant standard and the revenue definition in the conceptual framework would appear to be inconsistent. We recommend that inflows in the conceptual framework be amended to "gross inflows."</p>	See Agenda Paper 2A1 for discussion on revenue.
012	B	<p>We agree with the definition of revenue provided that the term <i>inflows during the current reporting period</i> is synonymous with the <i>increase in net assets</i>. We appreciate the view that, to the extent possible, elements of financial statements should be defined independently, and that ideally the elements of the statement of financial position do not take precedence over the elements of the statement of financial performance. However, that may not be possible to achieve completely. In the proposed language for the definition of revenue, it appears that all inflows during the current reporting period also increase the net assets of an entity; however, it does not also provide the assurance that all increases in the net assets of an entity are inflows during the reporting period. It leaves open the possibility that there are increases in the net assets of an entity that are something other than inflows of the current reporting period.</p>	See Agenda Paper 2A1 for discussion on revenue.
013	C	<p>Recommend changing the definition to "revenue is inflows during the current reporting period, which increase equity (net assets)." The concept of ownership contribution should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred inflows definition should also not</p>	See Agenda Paper 2A1 for discussion

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
		be part of revenue definition as discussed in Comment 5 below.	on revenue.
014	C	<p><u>Main view</u></p> <p>Most Australian members of ACAG suggest amending the definition of revenue for the following:</p> <ul style="list-style-type: none"> Exclude inflows that result from decreases in deferred inflows from the definition of revenue in accordance with the Alternative View of Prof. Mariano D'Amore. Please refer to <u>our response to SMC 5(a) below</u>. Modify the phrase 'inflows during the current reporting period' as inflows are generally associated with cash-based reporting. We recommend that the term 'increases in economic resources or benefits' replaces the term 'inflows' as this is consistent with IFRS terminology, and better reflects the concept of accrual accounting. <p><u>ACAG view</u></p> <p>In addition, paragraph 4.7 of the ED states that "the difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance". We are not sure whether this will be addressed in Phase 4 of the Framework on Presentation in General Purpose Financial Reports, but it should be made clear that surplus or deficit in the Exposure Draft is different from surplus or deficit in the existing standards which excludes items like revaluation surpluses/losses (i.e. items of other comprehensive income (OCI) under IFRSs). We believe that the IPSASB should discuss the concept of OCI items as part of the Framework (as is being proposed by the IASB in its Conceptual Framework project).</p>	<p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
015	C	<p>The definition disclosed in section 4.1 on p. 15 is not expressed in terms of a principle or reasoning, it is just the increase of the net assets of an entity with 2 exceptions.</p> <p>Net assets can change in terms of capital movements (e.g. long term financing by donors, merger with another government, long term financing by IMF, funding by another government, etc.) next to changes caused by the operational activities resulting in revenues or expenses. It is the aim of a income statement (P/L account) to provide the stakeholder with a detailed overview of the different revenues and expenses explaining the operational movement of the net assets.</p> <p>In other words revenues and expenses should be defined as the result of the operational changes in the net assets, not vice versa.</p>	<p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
016	D	<i>No comment noted.</i>	N/A

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
017	B	We generally agree with the definition of revenue. However we think the terms exchange versus non-exchange transaction should be defined in the Conceptual Framework as the latter is a specific and important accounting term for the public sector.	See Agenda Paper 2A1 for discussion on revenue.
018	C	In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework. In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of revenue could be used. For example “Inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions”.	Noted. See Agenda Paper 2A1 for discussion on revenue.
019	C	The Province does not agree with the definition of revenue. Revenues should not include unrealized gains on the value of assets and liabilities. Unrealized gains should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a separate statement.	See Agenda Paper 2A1 for discussion on revenue.
020	A	We have not identified any major issues from a technical standpoint.	Noted.
021	C	We do not agree with the proposed definition of revenue in the ED. We view that the broad definition of revenue to include deferred inflow as opposed to having these considered as separate elements. As captured in BC34, Revenue should be defined as “ <i>Inflows during the current reporting period, which increases the net assets of an entity, other than ownership contributions</i> ”.	See Agenda Paper 2A1 for discussion on revenue.
022	B	Assuming that deferred inflows and deferred outflows are accepted as financial statement elements in the IPSAS Conceptual Framework (see response to Question #5 below), we agree with the proposed definition of revenue. For clarity, IPSASB may want to consider specifying in the revenue definition (paragraph 4.1) that the term “inflows” relates to either the inflow of service potential or economic benefits (as it does in the asset definition in paragraph 2.1).	See Agenda Paper 2A1 for discussion on revenue.
023	C	NO.	

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 3</p>	<p align="center">STAFF COMMENTS</p>
		<p>a) Modify the wording of the definition to focus on changes in assets and liabilities instead of current period flows.</p> <p>b) Exclude 4.1. (b)</p> <p>c) Explicitly include verbiage that clarifies how gains are treated per Section 4 of Basis of Conclusions, clause BC38.</p> <p>The definition for these seminal elements of financial statements as provided in this conceptual framework differs in key respects from that already promulgated by the IAASB in its Conceptual Framework for Financial Statements 2010 (CFFFS 2010). To some degree this is due to the differing nature of the entities concerned, i.e., public sector vis-à-vis commercial enterprises.</p> <p>The differences are:</p> <p>a) The treatment of revenue and expenses as current period flows is I think particularly apt for the public sector environment, but it does however, have the concomitant difficulties which arise when there is the need to consider the impact of deferral of these flows. As deferred flows are a significant issue in the public sector, for clarity it might be advisable to couch these definitions from the perspective of changes in assets and liabilities.</p> <p>b) Use in the definition of revenue and expense of the term “net assets of an entity” rather than “equity” as in CFFFS 2010. This difference is cosmetic as the two terms mean essentially the same thing. However, I believe “net assets of an entity” is more meaningful in a public sector context.</p> <p>c) Expansion of these definitions to account for current reporting period deferred inflows and outflows, respectively. This takes the definition of revenue and expenses beyond that already outlined in CFFFS 2010 and results in an accounting treatment that is counter-intuitive to accepted practice which treats deferred inflows and outflows as impacting assets and liabilities rather than revenue and expense. Section 1.6 of this very framework outlines exact same position. It is and will therefore be, I believe confusing to the average user of financial statements for such a radical shift in accepted classification to be used. I am therefore inclined to agree with the Alternative View of Prof. Mariano D’Amore that deferred outflows and inflows should be separated from revenue and expenses, see AV 4, page 34. Such a treatment is also in keeping with Government Accounting Standards Board (GASB) 63.</p> <p>Finally, gains and losses are not considered conceptually different from revenue and expenses and are therefore not separately defined. This position is detailed in Basis for Conclusions, section 4, clause BC 38. It would however be good to include this as part of the Conceptual Framework explicitly</p>	<p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
024	C	We do not fully agree with the proposed definition. We propose it reads "Revenue is inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions".	See Agenda Paper 2A1 for discussion on revenue.
025	C	<p>We dislike the use of the term 'revenue' with regard to public sector entities because it is widely applied by profit orientated entities in describing income from operating activities. A public sector entity typically receives income from government to cover the cost of the service it is required to provide. A public sector entity may also charge (in whole or in part) for certain services such as licenses. We are uncomfortable with describing these incomes as revenue and would prefer to label them 'income.' It may be that reporters may wish to label certain incomes as 'operational income' and other incomes as 'other' or 'non-operational' however, we would not be prescriptive on such an approach.</p> <p>We consider 'inflows' does not sufficiently describe income and suggest starting 4.1 a) and b) with: Inflows of economic benefits and/or assets embodying service potential during the current...</p>	See Agenda Paper 2A1 for discussion on revenue.
026	C	<p>The Cour des Comptes regrets that the IPSAS Board has withdrawn any other reference unless variations of net assets or liabilities to define revenues and expenses; this makes all visible link with the current or operational activity of the entity disappear. Such basic notions as revenues or expenses loose in this approach a big part of their meaning for large numbers of users or public decision makers, expecting a concrete significance of elements in the financial statements more than abstraction, familiar only to few theorists.</p> <p>In the debate "balance sheet" versus "flows" models, the Cour des Comptes wishes to keep a balance between different notions. The Cour reaffirms its attachment to maintain a strong conceptual link between revenues and annual inflows of current resources of public entities, notions familiar for users of financial statements, especially public elected decision makers. The Cour recognizes also that the link has to be kept between variations of assets and liabilities on one hand and the statement of financial performance on the other hand.</p>	See Agenda Paper 2A1 for discussion on revenue.
027	B	<p>Yes - but</p> <p>I agree with the definition of revenue for the public sector. The recognition of revenue in the financial reports must have a matching principle in the public sector, to ensure the operating result and net result can provide the reader with reliable financial indicators of financial performance.</p> <p>However as mentioned above, it should also identify and define operating revenue and capital revenue. The criteria for the recognition of all revenue is the same, but the need to split it is equally important as it provides the right information to be able to correctly assess the financial performance. Without knowing</p>	Deal with under presentation

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
		<p>the total of operating income and operating expenses, the net operating result can not determined. It is this operating result that is the main indicator of whether the opening physical operating capacity has been maintained. This is detailed further in my attached discussion paper.</p> <p>Operating revenue may be defined as that which is received for the purpose of funding operating expenses recognised in the period.</p> <p>Capital revenue may be defined as that which is received for the specific purpose of funding the acquisition or construction of capital assets. The restriction is imposed as a condition by the funds provider. These would include capital grants and capital contributions that are restricted to be expended on capital assets. Capital income that will be disclosed in the statement of financial performance will include a profit that arises from the disposal of capital assets or a gain that arises from a change in value of capital assets that must be recognised through the statement of financial performance. The value of physical assets contributed to the entity is recognised as capital revenue.</p>	<p>Deal with under presentation</p> <p>Deal with under presentation See Agenda Paper 2A1 for discussion on revenue.</p>
028	A	We agree with the proposed definition of revenue.	Noted.
029	C	<p>The Task Force acknowledges similarities between the definition proposed by CF-ED2 as compared to the definition of revenue used in IPSAS 1 and notes that main difference between the definitions relates to the concept of changes in deferred inflows and outflows. New definition also excludes reference to inflow of economic benefits or service potential as attribute of the revenue, which broadens the definition and does not limit it to specific types of activities associated with main operations of an entity. As further discussed in the Basis for Conclusions, the IPSASB took the view that inflows and outflows related to activities outside of ordinary course of operations (for example, gains and losses) “do not differ from other forms of revenue and expenses, because they both involve net increases or decreases of assets and/or liabilities” (para. BC 38).</p> <p>The Task Force agrees with the proposed definition of revenue, but would like to reserve the right to present other types of revenue and expenses on the face of financial statements as well as in the notes thereto should organizations consider that such disclosure would provide useful information to users of their financial statements. The IPSASB is requested to consider surrendering the decision on presentation of other types of revenue and expenses to preparers of the GPFs while formulating views for Phase 4 of the Conceptual Framework “Presentation in General Purpose Financial Reports”.</p> <p>Although definition of revenue has not been significantly altered, it is clear that introduction of concept of deferred inflows and outflows in definition of the revenue is likely to have a significant impact on recognition and presentation of revenues and expenses in financial statements of entities which</p>	For consideration by the IPSASB.

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		<p>currently conform to requirements of IPSAS 23 which does not provide for recognition of inflows based on the period to which they relate.</p> <p>The IPSASB would need to conceptually bridge the approach to revenue recognition proposed in CF-ED2 with that of IPSAS 23 to support preparers of the GPFS who wish to conform to both pronouncements of the Board.</p> <p>The United Nations, a member of the Task Force, does not agree with definition of revenue proposed by the CF-ED2 as it does not sufficiently explain significance of deferred inflows to revenue recognition.</p>	<p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
030	A	We agree with the definition of revenue. However see our comments on question 5(a) where we have some concerns about defining deferred inflows as separate elements.	Noted.
031	C	<p>HoTARAC does not support the proposed definition of revenue as it excludes deferred inflows. Detailed comments regarding deferred inflows and outflows are provided in response to Specific matter for comment 5.</p> <p>Consistent with the first sentence of BC 34, HoTARAC supports revenue and expenses being determined by changes in assets and liabilities over the period i.e. asset and liability-led approach due to representational faithfulness and objectivity. This is consistent with the approach used under current Australian GAAP, IPSAS, IFRS and GFS.</p> <p>HoTARAC believes the concept of representational faithfulness is better aligned when financial statement's elements are based on objective measure of economic phenomena. This enhances the representation of resources and flows by requiring the reporting entity to assess information about economic events that have transpired during the reporting period.</p> <p>In addition, HoTARAC recommends adding the concept of economic benefits and service potential as part of the definition of revenue i.e.</p> <p>"Revenue is:</p> <p>Increases in inflows of economic benefits and service potential during the current accounting period which increases the net assets of an entity,"</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
032	A	Yes, I agree with the definition of revenue.	Noted.
033	A	We agree with the proposed definition of revenues and expenses as flows relating to the current period, as opposed to the net result of changes in the balance sheet. IPSASB may also wish to consider introducing "gains" and "losses" as a means to address revenues and expenses that are incurred by the	See Agenda Paper 2A1 for discussion

R#	C #	RESPONDENT COMMENTS SMC 3	STAFF COMMENTS
		government but outside the course of ordinary government activities such as the divestiture of government business enterprises.	on revenue.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	C	<p>In our opinion, the definition of revenue used by IPSASB needs to be expanded in light of the characteristics specific to the public sector, for two reasons:</p> <ul style="list-style-type: none"> • we regret that the definition does not refer explicitly to sovereign revenue, which is the main type of public-sector revenue and has no private-sector equivalent, • we do not think the reference to the concept of ownership contributions is relevant to the public sector (see response to Specific matter for comment 6 B/). <p>Furthermore, as argued in our response to Specific matter for comment 7 and in our general comment, the recognition criteria need to be clarified.</p>	<p>Not considered necessary to analyse types of revenue in CF.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
036	D	<i>No comment noted.</i>	N/A
037	C	<p>Our answer to Specific Matters for Comment 3 and 4 follow. We do not agree with the proposed definitions of revenue or expenses.</p> <p>We believe that revenue and expense should be determined by an asset and liability-led approach. It is our view that revenue and expense should reflect all changes in economic resources and not just those changes that represent inflows or outflows of resources. To accommodate this view of revenue and expenses would necessitate expanding their definitions to provide for those remeasurements of assets and liabilities that do not represent inflows and outflows of resources, for example revaluation increments and decrements of property, plant and equipment. Further, the references to 'deferred inflows' and 'deferred outflows' should be removed. As we have mentioned above, we do not support these items being separate elements.</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue and expenses.</p>
038	C	As discussed earlier in our cover letter and further in our response to SMC 5 on deferred inflows and deferred outflows, we suggest modifying the definition of revenue and expenses by removing any references to deferred inflows and deferred outflows in the existing definitions in paragraphs 4.1 and 4.2.	See Agenda Paper 2A1 for discussion on revenue and expenses.
039	C	The AASB's main concern with the proposed definition of revenue is with its exclusion of 'increases in deferred inflows' and inclusion of 'inflows ... that result from decreases in deferred inflows' (in parts (a)(ii) and (b), respectively, of the proposed definition). The AASB fundamentally disagrees with	

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		<p>identifying deferred inflows as elements of financial statements; if its view were accepted, parts (a)(ii) and (b) of the proposed definition would become irrelevant. The AASB's reasons for fundamentally disagreeing with identifying deferred inflows as elements of financial statements are set out in its comments on Specific Matter for Comment 5, and are not repeated here. Except for the concerns noted in this paragraph, the AASB generally agrees with the proposed definition of revenue.</p> <p>For completeness and clarity, the AASB suggests that the definition of revenue specifies the nature of the inflows to which it refers, and that these should be described as 'inflows of economic benefits' (as mentioned in its comments above on Specific Matter for Comment 1, the AASB would prefer that 'service potential' is not explicitly referred to in the definition of an asset).</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>
040	C	<p>No - We reiterate our response from June 2011 whereby we believe that elements of financial performance should be defined in terms of changes in net assets (excluding transactions with equity interests) and not in terms of inflows and outflows.</p> <p>We are also uncomfortable with the use of the term 'revenue' as the general term for all inflows. We believe that the term revenue is understood to be associated with operating activities (i.e. above the line) and therefore could be misunderstood and lead to confusion if it is used in the general way proposed by the IPSASB. Therefore, we would prefer to see the use of a broad term such as 'gains'.</p>	<p>Noted.</p> <p>See Agenda Paper 2A1 for discussion on revenue.</p>

Specific Matter for Comment (SMC) 4:

Do you agree with the definition of expenses? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 010, 017, 020, 028, 030, 032, 033, 034	11
B – PARTIALLY AGREE	006, 011, 012, 022	4
C – DISAGREE	003, 005, 007, 008, 009, 013, 014, 015, 018, 019, 021, 023, 024, 025, 026, 027, 029, 031, 035, 037, 038, 039, 040	23
SUB-TOTAL OF THOSE PROVIDING COMMENTS		38
D – DID NOT COMMENT	016, 036	2
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
001	A	The FMSB agrees with the definition of expenses proposed.	Noted.
002	A	Yes, we agree with the definition of expenses.	Noted.
003	C	<i>The respondent included comments on SMC 4 together with the response for SMC 3. See response for respondent 003 above in SMC 3 summary. Respondent does not agree with the definition of expenses proposed in the ED.</i>	Noted.
004	A	We agree.	Noted.
005	C	As proposed, ownership distributions should not be included in expenses. But increases in deferred outflows and decreases in deferred inflows should be included, because they are expenses. Because, as mentioned above, deferred outflows belong to expenses, Heading b) should be excluded.	See Agenda Paper 2A.1 for discussion on expenses.
006	B	The Council is also pleased to see the changes in this definition compared with the prior Consultation Paper. However, as in the case of revenue, the definition should assign greater prominence to the	See Agenda Paper 2A.1 for discussion

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>concept of economic flows.</p> <p>The triggering event for expenses should be specified, as it should be for revenue. The Council would like to point out that the triggering event for recognition of expenses is the “service rendered”.</p> <p>Concerning intervention expenditure, the existence of the “service rendered” presumes that all necessary conditions for establishing the beneficiary’s entitlement have been met. For multi-year schemes with conditions attached often found in the public sector, expense recognition is subject to annual compliance with the conditions. If all the necessary conditions for establishing the beneficiary’s entitlement have not been met at the closing date, or if the conditions must be maintained during periods following the end of the financial year, the corresponding commitments are disclosed in the Notes.</p> <p>For example, for multi-year payment schemes subject to specific resource conditions, compliance with the stated resource conditions must be confirmed annually. Amounts still to be paid in respect of future years constitute Central Government or public entities commitments, not liabilities.</p> <p>In this respect, the Council notes that commitments are not mentioned in the Conceptual Framework, whereas they are in reality very significant, particularly in the public sector. The Exposure Draft needs to include this point.</p>	<p>on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses and liabilities.</p>
007	C	<p>Similar to the definition of revenue, we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.</p> <p>Therefore a possible definition of expense, retaining the existing wording but removing the references to deferred inflows and outflows, would be “Outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions”.</p> <p>As discussed later, we believe that any appropriate deferral of expenses recognition can be achieved using the definitions of assets, liabilities, and expenses alone, by further consideration of the control criteria for these transactions.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
008	C	<p>Consistent with our discussion in the covering letter and in Specific Matter for Comment 5 regarding deferred inflows and deferred outflows, we do not agree with the definition of expenses.</p>	<p>Noted.</p>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>We consider that expenses should be defined as all outflows during the current reporting period, other than ownership distributions, which decrease the net assets of an entity.</p> <p>Similar to our comment about the definition of revenue, we consider that the proposed definition of expenses will potentially result in expenses for a particular reporting period being misstated because we do not consider that decreases in deferred outflows are expenses. The proposed adjustments to expenses relate only to a subset of transactions that could be defined as deferred outflows (i.e. those relating to non-exchange transactions associated with specified future periods). We query the usefulness of such an expense figure as an indicator of the performance of an entity for the period given that the benefits to be derived for the deferred outflows are not necessarily associated with those periods.</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
009	C	<p>We do not agree with the definition of expenses, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.</p> <p>As a result, we propose amending the expense definition as follows:</p> <p>Expenses are (a) inflows of economic benefits or service potential during the current reporting period, which decrease the net assets of the entity, other than (i) ownership distributions; and (ii) increases in deferred outflows; and (b) inflows during the current reporting period that result from decreases in deferred outflows.</p> <p>If the definition is retained, we suggest making similar changes to those proposed to the revenue definition outlined above.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
010	A	Agree.	Noted.
011	B	<p>You ask whether “we agree with the definition of expenses and if not, how would you modify it”</p> <p>The current definition of expenses in the conceptual framework refers to “outflows” which “decrease the net assets of an entity”. We recommend that the definition expand on the nature of outflows (decrease in economic benefits or service potential) and also should explicitly consider whether consumption of assets/incurrence of liabilities can be added to the definition as this is not explicitly mentioned as follows:</p> <p>“Expenses are</p> <p>(a) Outflows during the current reporting period which decrease the <u>economic benefits or service potential during the current reporting period in the form of outflows or consumption of assets or incurrence of liabilities</u> not assets of an entity, other than:</p> <p>(b)</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
012	B	Please see our comments on Specific Matter for Comment 3. The definition of expenses uses similar language.	Noted.
013	C	Recommend changing the definition to “expenses are outflows during the current reporting period, which decrease equity (net assets).” The concept of ownership distributions should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred outflows definition should also not be part of revenue definition as discussed in Comment 5 below.	See Agenda Paper 2A.1 for discussion on expenses.
014	C	<p><u>Main view</u></p> <p>Most Australian members of ACAG suggest amending the definition of expenses for the following:</p> <ul style="list-style-type: none"> Exclude outflows that result from decreases in deferred outflows from the definition of expenses in accordance with the Alternative View of Prof. Mariano D’Amore. Please refer to our response to SMC 5(a) below. Consistently with the comment in SMC 3 above, replace the term ‘outflows’ with the term ‘decreases in economic resources or benefits’ as this is consistent with IFRS terminology, and better reflects the concept of accrual accounting. <p><u>ACAG view</u></p> <p>Please also refer to our comment in SMC 3 above on OCI items.</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>Noted.</p>
015	C	See revenues.	Noted.
016	D	<i>No comment noted.</i>	N/A
017	A	We agree with the definition of expenses.	Noted.
018	C	<p>In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.</p> <p>In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of expenses could be used. For example</p> <p>“Outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions”.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
019	C	The Province does not agree with the definition of expenses. Expenses should not include unrealized losses on the value of assets and liabilities. Unrealized losses should not be included on the statement of revenue and expenses for the period. It may be appropriate in some situations to measure some types of assets and liabilities at fair value, but the unrealized gains and losses should be included in a	See Agenda Paper 2A.1 for discussion on expenses.

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		separate statement.	
020	A	We have not identified any major issues from a technical standpoint.	Noted.
021	C	As explained above for revenue, similarly, we do not agree with the proposed definition of expenses in the conceptual framework. We view that the broad definition of expenses is sufficient with IPSASB providing guidance on different categorization within expenses. Changes in outflows and inflows will then be addressed within the broader scope of expenses. We opine that any fitting deferral of expenses recognition can be achieved using the definitions of assets, liabilities, and expenses alone, taking into consideration, the control criteria for these transactions.	See Agenda Paper 2A.1 for discussion on expenses.
022	B	Assuming that deferred inflows and deferred outflows are accepted as financial statement elements in the IPSAS Conceptual Framework (see response to Question #5 below), we agree with the proposed definition of expenses. Similar to our comment made related to the definition of revenue, for clarity, IPSASB may want to consider specifying in the expenses definition (paragraph 4.2) that the term “outflows” relates to either the outflow of service potential or economic benefits (as it does in the liability definition in paragraph 3.1).	Noted. See Agenda Paper 2A.1 for discussion on expenses.
023	C	NO. a) Modify the wording of the definition to focus on changes in assets and liabilities instead of current period flows. b) Exclude 4.2 (b) c) Explicitly include verbiage that clarifies how losses are treated per Section 4 of Basis of Conclusions, clause BC38. <i>The respondent has provided additional details for revisions together with the comments provided in SMC 3 on assets. Please see response summary 023 for SMC 3 for more details.</i>	See Agenda Paper 2A.1 for discussion on expenses.
024	C	As per our general response, we do not fully agree with the proposed definition of expenses. We propose it reads “Expense is outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions”.	See Agenda Paper 2A.1 for discussion on expenses.
025	C	We consider ‘Outflows’ does not sufficiently describe expenses and suggest starting 4.2 a) and b) with: Outflows of economic benefits and/or assets embodying service potential during the current...	See Agenda Paper 2A.1 for discussion on expenses.

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
026	C	see above response to SMC 3, similar comment.	Noted.
027	C	<p>Yes - but</p> <p>I agree with the definition of expenses for the public sector. The recognition of expenses in the reporting must have a matching principle in the public sector to ensure the operating result and net result can provide the reader with reliable financial indicators of financial performance.</p> <p>However as mentioned above, it should also identify and define operating expenses and capital expenses. The criteria for the recognition of all expenses is the same, but the need to split it is equally important for the reader to assess the correct financial performance. Without knowing the total of operating income and operating expenses, the net operating result can not determined. It is this operating result that is the main indicator of whether the opening capital capacity has been maintained.</p> <p>Operating expenses may be defined as recurrent outflows incurred for the purpose of delivering recurrent services to the community and includes the cost of consumption of the service potential of the capital assets used utilised in the delivery of those services (depreciation).</p> <p>Capital outflows may be defined as expenditures that directly affect the net capital asset value of the entity. This would therefore include funds used to pay down capital loans or debt. Capital expenses that will be disclosed in the statement of financial performance will include the loss from the disposal of capital assets and changes in value of capital assets that that gives rise to a loss.</p> <p>Specific Matter for Comment</p> <p>4. Revenue and Expenses</p> <p>Definitions</p> <p>4.7 Financial Performance</p> <p>I disagree with the statement that "The difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance"</p> <p>In the public sector and in particular the local government sector, it is the difference between the operating income and operating expenses that is the indicator of financial performance not the net result that arises from deducting total expenses from total revenue. Unless the opening capital capacity has been maintained as measured by an operating surplus or deficit, a profit has not been made in the period.</p> <p>For example, the inclusion of the revenue arising from the recognition of a physical asset in the measurement of financial performance, can turn an operating deficit into a net surplus. The underlying operating deficit which indicates a reduction in the entity's physical operating capacity is totally masked</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>by the inclusion of this capital revenue when assessing the financial performance. The recognition of physical assets in a reporting period adds to opening capital value in the next reporting period, but does not add to the financial performance in the current period.</p> <p>In the statement of financial performance there should be recognition firstly of the operating income and expenses arriving at a net operating surplus or deficit. After the operating result the capital income and expenses should be recognised arriving at a net result for the period. The net result has little significance in the measurement of financial performance in local government.</p> <p>The measurement of management's financial performance should be gauged on whether the entity's opening physical operating capability has been maintained. This is a strong indicator of financial sustainability. The net result does not provide the reader with this information.</p>	See Agenda Paper 2A.1 for discussion on expenses.
028	A	We agree with the proposed definition of expenses.	Noted.
029	C	<p>The Task Force agrees with the proposed definition. Please see response to SMC 3 for further details.</p> <p>Similar to the comment on SMC 3 above, the United Nations does not agree with definition of expenses proposed by the CF-ED2 as it does not sufficiently explain significance of deferred outflow to recognition of expenses.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
030	A	We agree with the definition of expenses. However see our comments on question 5(a) where we have some concerns about defining deferred outflows as separate elements.	Noted.
031	C	<p>HoTARAC does not support the proposed definition of expenses as it excludes deferred outflows. Detailed comments regarding deferred inflows and outflows are provided in response to Specific matter for comment 5.</p> <p>HoTARAC has similar concerns to those made in response to specific matter for Comment 3.</p> <p>In addition, HoTARAC recommends adding the concept of economic benefits and service potential as part of the definition of expenses i.e.</p> <p>‘Expenses are:</p> <p>Increases in outflows of economic benefits and service potential during the current accounting period which decreases the net assets of an entity,’</p>	<p>Noted.</p> <p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
032	A	Yes, I agree with the definition of expenses.	Noted.
033	A	We agree with the proposed definition of revenues and expenses as flows relating to the current period, as opposed to the net result of changes in the balance sheet. IPSASB may also wish to consider	See Agenda Paper 2A.1 for discussion

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		introducing “gains” and “losses” as a means to address revenues and expenses that are incurred by the government but outside the course of ordinary government activities such as the divestiture of government business enterprises.	on expenses.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	C	<p>In our opinion, the definition of expenses used by IPSASB needs to be expanded in light of the characteristics specific to the public sector, for two reasons:</p> <ul style="list-style-type: none"> • we think that the recognition criterion for expenses is service rendered, which was not made explicit in the developments, • we do not think the reference to the concept of ownership distributions is relevant to the public sector (see response to Specific matter for comment 6 B/). <p>As argued in our response to Specific matter for Comment 7 and in our general comments, the recognition criteria need to be clarified.</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>Noted.</p>
036	D	<i>No comment noted.</i>	N/A
037	C	<p>Our answer to Specific Matters for Comment 3 and 4 follow. We do not agree with the proposed definitions or revenue or expenses.</p> <p>We believe that revenue and expense should be determined by an asset and liability-led approach. It is our view that revenue and expense should reflect all changes in economic resources and not just those changes that represent inflows or outflows of resources. To accommodate this view of revenue and expenses would necessitate expanding their definitions to provide for those remeasurements of assets and liabilities that do not represent inflows and outflows of resources, for example revaluation increments and decrements of property, plant and equipment. Further, the references to ‘deferred inflows’ and ‘deferred outflows’ should be removed. As we have mentioned above, we do not support these items being separate elements.</p>	See Agenda Paper 2A.1 for discussion on expenses.
038	C	As discussed earlier in our cover letter and further in our response to SMC 5 on deferred inflows and deferred outflows, we suggest modifying the definition of revenue and expenses by removing any references to deferred inflows and deferred outflows in the existing definitions in paragraphs 4.1 and 4.2.	See Agenda Paper 2A.1 for discussion on revenue and expenses.
039	C	Similarly to its main concern with the proposed definition of revenue, the AASB's main concern with the proposed definition of expenses is with its exclusion of ‘increases in deferred outflows’ and inclusion of ‘outflows ... that result from decreases in deferred outflows’ (in parts (a)(ii) and (b), respectively, of the proposed definition). The AASB fundamentally disagrees with identifying deferred outflows as elements	

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>of financial statements; if its view were accepted, parts (a)(ii) and (b) of the proposed definition would become irrelevant. The AASB's reasons for fundamentally disagreeing with identifying deferred outflows as elements of financial statements are set out in its comments on Specific Matter for Comment 5, and are not repeated here. Except for the concerns noted in this paragraph, the AASB generally agrees with the proposed definition of expenses.</p> <p>For completeness and clarity, the AASB suggests that the definition of expenses specifies the nature of the outflows to which it refers, and that these should be described as 'outflows of economic benefits'.</p>	<p>See Agenda Paper 2A.1 for discussion on expenses.</p> <p>See Agenda Paper 2A.1 for discussion on expenses.</p>
040	C	No – similarly to our response to SMC 3 we also consider that the term 'losses' should be used as a general term for outflows in place of expenses.	See Agenda Paper 2A.1 for discussion on expenses.

Specific Matter for Comment (SMC) 5 (a):

Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 004, 010, 012, 017, 019, 029, 032, 033, 034, 035	11
B – PARTIALLY AGREE	006, 014, 028	3
C – DISAGREE	002, 003, 005, 007, 008, 009, 011, 013, 015, 016, 018, 020, 021, 022, 023, 024, 025, 026, 030, 031, 036, 037, 038, 039, 040	25
SUB-TOTAL OF THOSE PROVIDING COMMENTS		39
D – DID NOT COMMENT	027	1
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
001	A	We agree with the decision to define deferred inflows and deferred outflows as elements as well as the decision to restrict those definitions to non-exchange transactions.	Noted.
002	C	We do not agree with the decision to define deferred inflows and deferred outflows as elements. Deferred inflows and deferred outflows fit within the existing definitions and treatment of assets and liabilities other than that they refer specifically to non-exchange transactions. Unless there was a very clear advantage to having these elements separately defined we feel that it will only serve to confuse readers of the financial statements.	Noted.
003	C	It is apparent that the use of deferred inflows and outflows is a way to introduce a link between different capacities within the financial statements. Deferred outflows do not meet the definition of an asset; however it is possible that an item which could be considered to be a deferred inflow could constitute either a liability or a deferred inflow. For example, funds received in advance are part of the future years' operating capacity (proposed deferred inflow); yet these funds could also meet the proposed definition of a liability as it is likely that an entity that receives funds in advance would (by its past practice or a lack of alternatives) settle the obligation arising from receiving funds in advance. Accordingly,	See Agenda Paper 2A.1 for discussion

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		<p>introducing the notion of a deferred inflow for these funds would give rise to confusion as to whether these funds should be a liability or a deferred inflow.</p> <p>As noted above, we believe that the items that would potentially be recorded as deferred inflows and outflows are a subset of transactions and events that are outside the ordinary course of operations. As noted in BC38 of the Exposure Draft, these provide useful information for users of the financial statements. Nevertheless, by restricting the definition to non-exchange transactions alone, these financial statements will only partially achieve usefulness for users. Revenue and expenditure should include all gains and losses and the transactions from the ordinary course of business and those that are not, and the layered meaning that we think IPSASB is seeking to create should be dealt with as a matter of presentation.</p> <p>As best we are aware the term non-exchange transactions is not defined in the document. It is essential that the term be clearly defined in the conceptual framework if IPSASB chooses to maintain this limiting aspect of deferred inflows and outflows or uses the term in any other way.</p>	<p>on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>Non exchange transactions defined in IPSASB handbook.</p>
004	A	We agree.	Noted.
005	C	Deferred inflows and deferred outflows should not be defined as elements. Assets and liabilities are the main elements in the balance sheet. It is important to specify that there are expenses and revenues which are accrued. But the accruals do not differ from the assets and liabilities to such an extent for them to be designated as elements. Non-exchange transactions are very significant in the public sector. But the classification of the accruals of non-exchange transactions as individual and separate elements fails to convince. It is important to mention them, without them being designated as elements.	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
006	B	<p>The Council agrees with the principle of defining deferred elements as separate elements from assets and liabilities, as they are by their very nature annual adjustments.</p> <p>The Council wishes to mention that accruals and deferrals do not correspond to the definition of assets or liabilities; accordingly, they should be distinguished from them.</p> <p>The Council believes that the distinction between accruals and deferrals and deferred revenue/prepayments is not clear enough in part 5. This could create a risk of confusion between the concepts.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
007	C	The proposed Conceptual Framework includes deferred inflows and outflows as separate elements of the financial statements, arising as a result of non-exchange transactions where the inflows and outflows relate to a specified future reporting period. Due to the unique nature of the non-exchange transactions, we agree with the Board that they should receive specific consideration while developing	

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		<p>the Conceptual Framework.</p> <p>However, we believe that the proposal significantly modifies what generally is understood under the concept of revenue and expense, and this may have a negative impact on the users' understanding of the financial performance of the reporting entity.</p> <p>More importantly, we strongly believe that the Conceptual Framework should only include concepts that are based on principles which are generally applicable to all transactions. Consequently, the intent to provide specific guidance for a specific group of transactions (e.g. non exchange transactions) at Conceptual Framework level would not support a principle-based approach. This may unhelpfully be seen by many as decreasing the transaction neutrality of the Framework.</p> <p>Therefore, we do not support the proposal to identify and recognise deferred inflows and outflows as separate elements at the conceptual framework level as proposed by the Board.</p> <p>Due to the specific importance to public sector entities, we believe that there is a strong need to provide guidance as to when the deferred recognition of revenue and expenses would be appropriate, by further considering the control criteria in these cases; but that this guidance would be better addressed on a case by case basis at standard level.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>Noted.</p>
008	C	<p>We strongly disagree with the IPSASB's proposal to define deferred inflows and deferred outflows as elements.</p> <p>Elements in financial statements should represent real-world economic phenomena. Elements should be defined in relation to economic resources and economic obligations (assets and liabilities) and changes in those economic resources and economic obligations (revenues and expenses). Elements should not be items that do not represent real-world economic phenomena but are derived only from accounting constructs. We consider that the inclusion of deferred inflows and deferred outflows as elements in financial statements is not representationally faithful.</p> <p>The proposal to include deferred inflows and deferred outflows creates confusion about the objectives of the Statement of Financial Performance and the Statement of Financial Position and the information that they are intended to impart. It changes the composition of the elements of assets, liabilities, revenue and expense, and hence of ownership interests/equity.</p> <p>The existing purpose of a Statement of Financial Position is to present information about the resources under the control of the entity, obligations of, and claims against, the entity and ownership interests/equity at a particular point in time. The inclusion of deferred inflows and deferred outflows in the Statement of Financial Position is inconsistent with this generally accepted purpose. Consequently, the Statement of Financial Position would not faithfully represent the resources that an entity controls, the obligations of, or claims against the entity, or the entity's ownership interests/equity. The proposal, in</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion</p>

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 5 (a)</p>	<p align="center">STAFF COMMENTS</p>
		<p>our view, elevates the recognition and presentation of (partial) flows over the concept of control that traditionally underlies the Statement of Financial Position.</p> <p>We recommend that, if the proposal proceeds, the Framework clarifies the purpose of the Statement of Financial Performance and Statement of Financial Position. In this regard, we consider the discussion in paragraph 4.7 of the ED (in relation to Financial Performance) to be inadequate. We recommend a fuller discussion of financial performance under this new basis.</p> <p>We appreciate that IPSASB is responding to a perceived need for information about revenue received that is intended to be spent in a particular period and what has actually been spent in that period. However, in our view, information about whether an entity's resources were expended as intended for the period, similar to information about the performance of the entity in relation to its budget, is better imparted through a presentational approach rather than through the creation of separate elements. We consider that user-needs will be better served through presentation of the relevant information, in a separate statement or as a separate section of the primary financial statements, detailing such flows.</p> <p>The IPSASB's rationale for proposing that deferred inflows and deferred outflows be recognised as elements is stated in paragraph BC 40. However, the concept underlying the recognition of deferred inflows and deferred outflows is unclear when assessed against that rationale. As proposed, not all deferred flows will be accounted for consistently. The deferred flows are limited to non-exchange, time-based flows (where the future period the resources can be used has been specified). Flows associated with project-based transactions are not considered to be deferred flows. For example, funding received by an entity that is restricted to a particular project (with no return obligation if not spent as specified) would give rise to immediate revenue recognition. However, if the restriction is based on time (i.e. the funds are to be spent in a particular time period), revenue is deferred. In our view, there is no conceptual basis for creating this difference in the treatment of the two types of restrictions. We think that the proposals could lead to structuring opportunities – for example, by converting a project-based restriction to a time-based restriction in order to achieve the desired accounting outcome without changing the substance of the arrangement.</p> <p>In this regard, we note that BC45 also states that <i>"Multi-year grants with no substantive performance obligations and no return obligations would only be presented as deferred inflows or deferred outflows if the period over which those resources can be used is documented and recorded and the resources are actually used in those periods, as specified in the grant agreement."</i> Notwithstanding any specified restrictions, there is no certainty that the costs associated with the performance or benefits to be derived will necessarily be incurred in the periods specified.</p> <p>We consider that the IPSASB's justification in BC43 for including deferred inflows/outflows as elements to avoid standards-level inconsistency could equally be used as justification for taking a presentational approach to flows spanning more than one period. Including guidance on a presentational approach in</p>	<p>on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on revenue and expenses.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion</p>

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 5 (a)</p>	STAFF COMMENTS
		<p>the Framework would avoid both standards-level inconsistency and the creation of items that do not represent real- world phenomena for inclusion in the Statement of Financial Position.</p> <p>If the IPSASB proceeds with the proposal, we request that the presentation suggestions set out in the alternative view of IPSASB member, Professor Mariano D'Amore, which separates changes in deferred flows from revenue/expenses be given further consideration.</p> <p>Moreover, the Basis for Conclusions should contain a clearer discussion of the problem that the proposal is trying to solve together with a more robust and conceptual basis for why and how, for public sector entities, the proposed approach:</p> <ul style="list-style-type: none"> • better meets the objectives of general purpose financial reporting; • better meets the needs of users; and • meets the qualitative characteristics of the information that is presented in GPFRs. 	<p>on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
009	C	<p>We do not agree with the decision to define deferred inflows and outflows as separate elements for the following reasons:</p> <ul style="list-style-type: none"> • The proposed approach does not reflect economic reality at a given point in time. If an entity has gained control over resources over which no present or future obligation exists, then those resources should be reflected as an inflow in the current period as revenue. • Deferrals do not represent actual events or occurrences during a period; they merely reflect that a period of time has elapsed. For example, an entity might be given funding to undertake certain activities in both current and future periods. Under the deferred inflows and outflows approach, an entity would recognise those resources received when it has reached the relevant reporting period, irrespective of whether it has actually undertaken any activity. We are therefore of the view that using the passing of time as a measure of whether “flows” are revenue or expenses is an inappropriate reflection of the resources available to an entity at a particular date. • The notion of deferrals cannot be established without introducing “rules” into a principle based Conceptual Framework. It is also inappropriate that these rules are designed to distinguish between exchange and non-exchange transactions. Conceptual principles should be adequate to apply to a range of transactions, irrespective of their nature. <p>Based on these comments, we are of the view that the assets and liabilities definitions should be used as clear parameters within which to recognise revenues and expenses. If resources are received in a reporting period and no obligation exist over those resources, then revenue should be recognised in that period, and vice-versa for the recognition of expenses.</p>	

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		We support the view in BC42 that the consequence of receiving resources “earmarked” for future periods is a presentational issue (to be dealt with at a Standards-level) rather than a conceptual issue. We believe that that this issue should be addressed as part of the Board’s current work plan, particularly in relation to amendments to IPSAS 23 <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i> .	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
010	A	We agree with the definition of deferred inflows and deferred outflows and for them being classified as separate ‘elements’ within the ED.	Noted.
011	C	<p>You ask whether “<i>we agree with the decision to define deferred inflows and deferred outflows as elements and if we do whether we agree to restrict those definitions to non-exchange transactions</i>”</p> <p>The introduction to the ED (Paragraph 1.2) states that “Elements are the building blocks from which financial statements are constructed in a way that provides users with information that meets the objectives of financial reporting [accountability and decision making] and contributes to the qualitative characteristics [relevance, faithful representation, comparability, verifiability, timeliness and understandability] of financial reporting.”</p> <p>The distinguishing of inflows and outflows specified for consumption or use in a future reporting period may support decision making and accountability in the public sector. We believe this distinction may also assist in measuring performance of the entity especially for public entities that have a direct service delivery mandate.</p> <p>We however note that we have specific concerns of defining these deferred inflows and deferred outflows as specific elements. In our view, the intention of the IPSASB is to distinguish “pre-payments” from other assets and liabilities. For example, a deferred outflow can be interpreted as a prepaid expense. We do not believe that this intention has been achieved and there is need for further distinction and clarification. Some of the concerns may be more appropriately addressed at the standards level rather than at the conceptual framework level. Accordingly, we suggest there needs to be more examples from the IPSASB of relevant transactions and the accounting and reporting of those transactions if these elements are to remain in the conceptual framework.</p>	To be considered under presentation..
012	A	We strongly support the decision to define deferred inflows and deferred outflows as elements. We agree that there are circumstances when it is inappropriate to recognize increases or decreases in net assets as either revenues or expenses of the period and when the resulting balances do not meet the definition of either a liability or asset. We agree with the rejection of the other comprehensive income model or the dilution of the definitions of assets and liabilities as potential solutions to this issue. Identification of these circumstances as deferred inflows and deferred outflows is the most transparent way of representing this information.	Noted.

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
013	C	<p>Since the terms “deferred inflows” and “deferred outflows” are not well understood or used in practice, especially considering the international diversity of how this concept is viewed, it would be best not to include these concepts and terms. Deferred inflows are similar to deferred revenue (liabilities waiting to be matched against expenses in the future) and deferred outflows are similar to deferred expenses (assets waiting to be matched against revenue in the future). It would be best to use universal language (i.e., terms, definitions) known to all accountants — Assets, Liabilities, Revenues, Expenses and Equity (net assets).</p> <p>The purpose and usefulness of having Deferred Inflows and Outflows as elements should be more thoroughly discussed before inclusion in the framework.</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
014	B	<p><u>Main view</u></p> <p>Most Australian members of ACAG support the decision to define deferred inflows and deferred outflows as elements. They agree with the rationale set out in paragraphs BC35 and BC40 of the Basis for Conclusions. However, they do not support the proposed treatment of increases/decreases in deferred inflows and deferred outflows because this substantially modifies the generally understood concepts of revenue and expenses as changes in net assets. They support the Alternative View of Prof. Mariano D’Amore that increases/decreases in deferred inflows and deferred outflows should be considered as separate elements from revenue and expenses.</p> <p><u>Divergent view</u></p> <p>Two Australian members of ACAG do not support the decision to define deferred inflows and deferred outflows as elements. They are not convinced by paragraphs BC40-43 of the Basis for Conclusions that there is a need for new elements in financial statements to deal with specific non-exchange transactions. A new element for a specific group of transactions is not required, when it can be addressed through the definitions and recognition criteria of other elements, e.g. revenue, liability. Users will be further confused when deferred inflows and deferred outflows, and net financial position are defined, recognised and measured separately from existing elements. The Exposure Draft will lead to two measures of financial performance and two measures of financial position.</p> <p>These two Australian members of ACAG support the Alternative View of Ms Jeanine Poggiolini. As outlined in paragraph AV8, Ms Poggiolini disagrees with the identification and recognition of separate elements for deferred inflows and outflows, and believes that these flows should be included in the definitions of revenues and expenses. As a consequence these members also do not support the need to separately define net financial position (refer SMC 6 below), as it would result in the same figure net assets under the approach outlined in paragraph AV8.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on net financial position.</p>
015	C	The definition of deferred inflows is indeed necessary to enable the accounting for e.g. received funds	

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		<p>that will be spend by the government in later periods. In the accounting regulations of the American GASB rules this is called net assets of the kind “<i>Permanently restricted funds</i>” or “<i>Temporarily restricted funds</i>”. Hence, these means of financing are “earmarked” and should not be expensed for other kinds of purposes than the purposes foreseen in the funding contract. The IPSASB should not develop complex terms to capture this kind of governmental activity in the light of IFRS; IPSASB could analyze more thoroughly the American GASB rules. Regarding deferred outflows the exposure draft an important question still remains: let us take the same example as described in 5.4 on p. 16: a multi-year grant is transferred by an entity with the stipulation by the transferor that it is to be used over one or more future reporting periods: in case this amount will be accounted for as an immediate decrease of the transferor’s net assets preferably disclosed as a separate element, the accounting policy can be approved. However, deferred outflows should never be disclosed positively on the asset side of the balance sheet! For a period in the nineties in Belgium municipalities had to account for deferred outflows as assets, meanwhile this incorrect approach has been abandoned.</p> <p>The approach of deferred inflows and deferred outflows should also keep in mind that governments can acquired funds on behalf of somebody else like a “legacy” or acquired as an agent just for logistics and distributions: e.g. nutrition aid in Africa: certain governments and non-profit organisations are asked to take care of the distribution of food, health care instruments, etc. for poor people. The organizations acquire therefore gifts and donations without any economic reason but just for cultural and human reasons. They become to some extent ‘proprietor’ of the goods and the resources, but only temporarily and somehow in terms of an agent who is supposed to take care of the distribution and the logistics.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>Staff to clarify with respondent.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
016	C	<p>While we appreciate the conceptual arguments for distinguishing deferred inflows and outflows from other transactions, we are concerned that the proposed introduction of these new elements could increase the complexity of financial statements to such an extent as to outweigh the potential benefits.</p> <p>In this context we have some sympathy with the alternative view included in the ED about the risks of moving away from the commonly understood concept that revenues increase and expenses decrease net assets.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
017	A	<p>We agree with the decision to define deferred inflows and deferred outflows as elements. We see advantages with the proposed solution but we believe, in order to achieve a comparable and harmonized financial reporting, there is a need to clarify when deferred outflows of resources and deferred inflows of resources should be recognized and how they should be measured. We also note that there might be difficulties with demarcations with items that consist of both exchange and non-exchange elements.</p>	<p>Staff to clarify with respondent.</p>

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
018	C	<p>As explained in our covering letter CIPFA disagrees with the proposal to define deferred inflows and deferred outflows as elements.</p> <p>Our disagreement reflects concerns that</p> <ul style="list-style-type: none"> inclusion as elements over emphasizes the importance of information on deferrals; and the proposed effects on presentation will reduce the readability and understandability of the financial statements. <p>CIPFA also considers that if IPSASB wishes to develop reporting on deferred flows this could be done at s</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
019	A	<p>The Province agrees with the decision to define deferred inflows and deferred outflows as elements. Many inflows or outflows from non-exchange transactions relate to future periods. These inflows and outflows should be deferred to the appropriate period.</p>	Noted.
020	C	<p>Whilst we certainly have sympathy with the aim underlying the IPSASB's proposals, we are neither convinced that such items should be classified as elements within the CF, nor that they should necessarily be restricted to non-exchange transactions as the IPSASB contends in BC45.</p> <p>As the IPSASB rightly points out, there is considerable potential for misuse. We share the IPSASB's reservations and agree that limiting the usage of such items would need to be determined at standard setting level. Indeed, the variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. In our view, such items should form special sub categories of assets or liabilities, provided this is justified by the terms governing the individual transaction. Changes to the material in the sections dealing with assets and liabilities would be needed to explain the nature of items. For example the CF should explain how control might be determined (i.e., when funds that have advanced for a specific purpose are subject to repayment unless the terms of their advance are met in a specified timeframe). We also note that the IPSASB has not justified why it believes that excluding the elements deferred inflows and outflows from a computation of net assets but reflected in the computation of net financial position would be helpful. Nor has the Board explained the purpose these respective terms serve (currently BC47 only explains the term "net financial position").</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
021	C	<p>We do not agree with the Board's decision to define deferred inflows and deferred outflows arising as a result of non-exchange transactions where the inflows and outflows relate to a specified future reporting period, as elements in the proposed conceptual framework. We believe that this proposal significantly modifies what generally is understood under the concept of revenue and expense, and may have a negative impact on the users' understanding of the financial performance of the reporting entity.</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
022	C	<p>No, we do not agree with the decision to define deferred inflows and deferred outflows as elements of the financial statements. Deferred inflows and outflows are not traditionally elements of a conceptual framework founded on an Asset and Liability model, but rather one that is based on a Revenue and Expense model.</p> <p>The Revenue and Expense model focuses on flows of resources that are applicable to a particular period. Consequently, a critical issue with the Revenue and Expense model is the difficulty in developing a solid, objective basis for deferring revenue and expenses. (PSAB Consultation Paper on Measuring Financial Performance in the Public Sector, page 22)</p> <p>On balance, our Office prefers a conceptual framework based on an Asset and Liability model because it is logical, defensible, and addresses qualitative characteristics of financial information that are important to users. Under the Asset and Liability model, if a change in asset or liability occurs, then it is recognized in the statement of financial performance in the period the change occurs.</p> <p>Specifically, under the Asset and Liability model, no judgment is required to determine which transactions and events that affect financial position are included or excluded from the financial performance of the reporting entity. No judgment is required to ascertain if an inflow or outflow is appropriately attributable to the current or future periods. All items that represent increases or decreases in the net resources of the entity in the period between financial reporting dates are included and, therefore, part of financial performance. This ensures a level of consistency and comparability by reducing the amount of judgment needed to determine in which period an item should appear. Artificial smoothing of reported results is not possible. (PSAB Consultation Paper on Measuring Financial Performance in the Public Sector, page 18)</p> <p>Our preference is to have no deferrals recognized in the statement of financial position that do not meet the definition of an asset or liability.</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
023	C	<p>a) An element is a broad aggregation of economic transactions that make sense to the users of financial reports, that is, it helps to improve accountability and decision making. The ED identifies eight elements:</p> <ol style="list-style-type: none"> 1. Assets 2. Liabilities 3. Deferred Inflows 4. Deferred Outflows 5. Ownership Contributions 6. Ownership Distributions 7. Revenues 	

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		<p>8. Expenses.</p> <p>Elements 1 through 4 combine to yield the Net Financial Position of the entity, which under this framework is Net Assets adjusted to include the net effect of Deferred Inflows and Deferred Outflows.</p> <p>The ED asks if deferred inflows and deferred outflows deserve to be elevated to the position of elements in the Statement of Financial Position.</p> <p>What are deferred inflows and deferred outflows?</p> <p>In essence, these are <u>non-exchange transactions (more likely to be found in public sector or not-for-profit entities)</u> that generate service potential or economic benefit in a <u>specified future financial period</u>.</p> <p>In a non-exchange transaction, one party does not expect to derive benefits that are commensurate with the value delivered, as in a donation or a grant of funds or an advance payment of taxes (unlikely in the Jamaican public sector environment).</p> <p>Because, by definition, the benefit to be generated by the recipient does not arise until some future period, the entity receiving the value would not classify the transaction as “revenue” in the current reporting period but as “deferred inflows”. Note, of course, that under the double entry system, the funds received would be classified as an asset, that is, “a resource that an entity presently controls capable of generating service potential or economic benefit, and which arises from a past event”.</p> <p>In this regard, the representation of the transaction as a “deferred inflow” indicates how much of the organization’s assets are reserved for financing spending in the future at which time the deferred inflows will be reported as revenues.</p> <p>On the other hand, the entity delivering the value would classify the transaction under the element “deferred outflow” and would delay reporting it as an expense until the specified future financial period(s).</p> <p>If one accepts that in the circumstances outlined above, the inflows should not be recognized as revenues in the books of the receiving entity, nor the outflows as expenses in the books of the donor entity as they do not affect the amount available for spending in the current reporting period, one question to be posed is, “why can they not be subsumed under the elements “liabilities” and “assets”?”</p> <p>The argument is that in public sector entities, there is (or could be) a prevalence of non-exchange transactions, and reporting them as deferred inflows and deferred outflows under liabilities and assets would be misleading to the user’s interpretation of the change in net assets (and therefore the change in the Owner’s financial position) as these deferred flows are not available for use by the entity at the date of the statement.</p> <p>In our opinion, it is difficult to see how the introduction of these two new elements improves the understanding of financial statements when the effect of the deferred inflows/outflows will typically be</p>	

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		<p>reported as an increase/decrease in Assets (bank balance) unless the intention is to report the change in separate lines or new elements as “<i>funds held for future spending</i>”/ “<i>funds to be applied to future spending</i>”.</p> <p>It is our opinion that the introduction of the elements “deferred inflows” and “deferred outflows” in financial reporting, even in public sector accounting, will serve to confuse users grown accustomed to the concept of “net assets” as representing the Owner’s equity especially in circumstances where the value of non-exchange transactions may not be material.</p> <p>Our preference would be to introduce a statement akin to the Statement of Comprehensive Income to incorporate the deferred flows below the Net Surplus line (Revenues less Expenses) while maintaining the integrity of the Statement of Financial Position with bank and other cash balances that reflect resources held by the entity even if control is theoretically absent or arise from obligations that are not present obligations. For completeness, the Statement should show <i>Funds held for future spending</i> in a separate line under Assets and <i>Funds to be applied to future spending</i> in a separate line under Liabilities with appropriate note disclosures.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
024	C	We do not support the proposal to identify and recognize deferred inflows and deferred outflows as separate elements. The proposal would significantly modify the current accounting principles and would negatively impact on the understandability of the financial statements by the users. Further the IFRSs have got five elements of the financial statements, therefore for comparability purpose we propose to maintain five elements also in the IPSASs.	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
025	C	We do not agree that it is necessary to define deferred inflows and deferred outflows separately or to limit them to non-exchange transactions. Paragraphs 5.1 and 5.2 state it is provided to use in a future period. If this is the case then there is a limitation attached to the service potential or economic benefits which mean that it cannot be used or accessed. If it is not the case then in a non-exchange transaction it should be recognized immediately.	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
026	C	<p>Disagreement.</p> <p>Presentation and definition of « deferred inflows or outflows » are too complex and are not expected to give way to an immediate assimilation of these concepts which can be understood in various meanings. An illustration, such as a disclosure of a set of identified inflows or outflows, supported by accounting accounts schemes, would have been welcome, and is here missing.</p> <p>The Cour has understood, through the short examples mentioned, that the “deferred flows” are elements that will get a specific reporting, distinct from assets and liabilities. In that scope, the indications mentioned in § 5.4 (multi -year grant, non-refundable), and BC 45 (tax, collected in N and to be spent in future years), lack clarity, because there is no information on their accounting treatment, but only on</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>

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		<p>“reporting”.</p> <p>For the Cour des Comptes, when a stable resource, coming from a non-exchange transaction, not dedicated to the compensation of exploitation deficits or the funding of current operations, is given or received, it has to be treated as an asset or a liability. Afterwards, this resource, designed to be used on a multi-year function, will have to be transferred on a pro rata basis to revenues or expenditures of the concerned future years. If this resource is clearly devoted to support current operations, they have to be considered as revenues (when received) or expenditure (when given).</p> <p>The example given in the ED of a multi-year grant registered one year by the beneficiary as an asset but dedicated to special tasks to be done by him in the future, seems close to a common accounting practice of transferring, to future years revenues, parts of the multi-year grant previously recorded as an asset. So, the Cour des Comptes does not see the necessity to create a new category of elements, even if it is only dedicated to the presentation of a “net financial position” distinguished from ‘net assets’.</p> <p>The Cour des Comptes notices that two alternative views are displayed by two members, which confirms that this issue is controversial. It is not insensible to the views of Mrs Poggiolini, assimilating these flows to revenues or expenses, therefore adding the possibility, as stated above, to consider a stable resource coming from a non- exchange transaction first as a liability, that will be afterwards transferred steps by steps to future revenues, as it is now practiced for investments subsidies in the French public sector (with reciprocity for given resources transferred from assets to future expenses).</p> <p>The Cour considers inappropriate to destabilize, at the conceptual framework level, a common principle, fundamental and universal such as assets and liabilities being the two opposite components of the patrimony of an entity, through the introduction of new and unclear distinct elements.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
027	D	<i>No comment noted.</i>	N/A
028	B	<p>We generally agree with all of the proposals put forward for deferred inflows and outflows in CF-ED2. However, we believe that deferred inflows and outflows should not be provided as symmetric elements, since they differ in some aspects, particularly regarding control by an entity over its resources.</p> <p>That is, since a deferred inflow is “an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period” as stated in paragraph 5.1 of the CF-ED2, an inflow of service potential or economic benefits is controlled by an entity. On the other hand, in view of the definition in paragraph 5.2 that a deferred outflow is “an outflow of service potential or economic benefits provided to another entity or party for use,” we cannot really say that, in a case of a deferred outflow, an entity controls a service potential or economic benefits.</p> <p>Therefore, with respect to a use of a deferred outflow, the IPSASB should clarify that a transferor would</p>	<p>Staff notes not an asset because entity does not control.</p> <p>See Agenda Paper 2A.1 for discussion</p>

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		be able to require a transferee to use the transferred resources in the specified future reporting periods.	on deferred inflows and outflows.
029	A	<p>The Task Force supports in principle the proposal of CF-ED2 to define deferred inflows and outflows as separate elements of financial statements and takes note of the reasons that led the IPSASB to this decision as discussed in the Basis for Conclusions (paras. BC 40-43). However, the concept of deferred inflows and outflows should be explained in more detail, including addition of examples applicable to a wide range of public sector entities.</p> <p>Some members of the Task Force note with interest alternative view of Ms. Jeanine Poggiolini and are inclined to support the IPSASB member's view that deferred inflows and outflows should be included in the definitions of revenues and expenses.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
030	C	<p>In our response to the IPSASB Consultation Paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (December 2010)</i> we stated that we did not support the proposal to define deferred inflows and outflows as separate elements and prefer an asset and liability model: our position remains unchanged.</p> <p>Our preference is for an asset and liability model. If, as a consequence, material income and expenditure is recognised in respect of amounts to be applied in future years, this could be disclosed by analysis of the net financial position on the face of the statement of financial position or by means of a note (any requirement for these options should be specified in a future IPSAS).</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
031	C	<p>HoTARAC strongly disagrees with the decision to define deferred inflows and deferred outflows as elements. HoTARAC believes that the inclusion of deferred inflows and outflows as elements fundamentally redefines the accounting framework accepted across both the public and private sectors, without sufficient justification. As stated in HoTARAC's response to the earlier consultation paper, HoTARAC favours the assets and liabilities-led approach and does not support the identification of deferrals, as these would not faithfully represent the economic phenomena.</p> <p>As the deferred inflow/outflow approach represents a radical departure from the asset and liability led approach used under IFRS and GFS, HoTARAC would have expected further information and conceptual justification based on the specific public sector issue and public sector user needs to be provided on this proposal, given the resulting divergence from IFRS and GFS.</p> <p>In paragraph BC40 the IPSASB identified and considered four options to present deferred inflows and deferred outflows in financial statements. HoTARAC does not support the two options of broadening the asset and liability definitions to include deferred inflows and deferred outflows or</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>

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		<p>defining deferred inflows and deferred outflows as separate elements. However, HoTARAC would be prepared to support the presentational approach of dealing with deferred inflows and deferred outflows through presentation or note disclosure or other forms of communication. HoTARAC notes that the use of an 'other comprehensive income' presentation would promote alignment with both IFRS and, by funneling valuation adjustments through OCI, other economic flows used in GFS. This approach would meet the IPSASB's objective to provide additional information on these transactions, if such information is adequately identified as a public sector user need and strengthen the understanding and communication to users of financial statements and hence, meet the objectives of financial reporting.</p> <p>BC 40 states that 'Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes.' However this view is not justified at any point, nor is it clear why this approach is uniquely applicable to non-exchange transactions. BC45 suggests the application is narrowed through time restrictions; however, if IPSASB believes that if this is a conceptually robust approach, it should be applied to all transactions.</p> <p>It is also not clear that narrowing the application of deferred inflows or outflows to non-exchange transactions obviates the concerns in BC 44 of costs being spread inappropriately over a number of reporting periods. For example, the Government may provide a grant to remediate an environmental disaster, with expenditure spread over several periods. Under the proposals, this could be a deferred outflow to the provider, but also a liability for restoration costs under IPSAS 19 <i>Provisions, contingent liabilities and contingent assets</i>.</p> <p>HoTARAC recommends that the IPSASB consider a less radical solution to the issues addressed through the concept of deferred inflows and outflows. An approach that defers the recognition of revenue for non-exchange transactions until the discharge of the performance obligation, in line with the approach the IASB is using for its upcoming standard on revenue, would be preferable. Such an approach would maintain the ongoing process of convergence with IFRS, promote consistency between the public and private sectors and avoid the need for the introduction of additional elements into the financial statements.</p> <p>HoTARAC agrees with Prof. D'Amore's comments in the Alternate View that the effects on the concept and display of financial performance, which arises from the proposed treatment of deferred inflows and deferred outflows, and from the new definition of revenue and expenses, are not fully explained in the ED. Based on the definition provided in the ED, revenues include flows that are changes in net assets in the reporting period while some others are simply movements in deferred inflows and vice versa for expenses. All these flows together are balanced to measure the surplus or deficit for the year. HoTARAC agrees with the view that such an approach has a negative effect</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on definition of liabilities.</p> <p>See Agenda Item 2A.1 for discussion</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

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		<p>on faithful representation and the ability of users to assess financial performance by considering its different components, i.e. the elements defined in the ED.</p> <p>HoTARAC also agrees with the conclusion made by the second member, Ms Poggiolini in the Alternate View, that at a more fundamental level, the concepts outlined in the Conceptual Framework should be based on principles that can be applied to a range of transactions and events. As a consequence, these principles should be transaction neutral and, should not distinguish between exchange and non-exchange transactions. Moreover, the principles should not be designed and defined in such a way that a specific outcome is achieved for a specific group of transactions.</p> <p>HoTARAC acknowledges that IPSASB is attempting to resolve the perennial public sector issue of multi-year grants by creating the deferred items elements. However as mentioned above, these additional elements, and critical departure from IFRS and GFS, may not be necessary, where applying the presentational approach and performance obligation approach.</p>	<p>on definition of revenue.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>Noted.</p>
032	A	Yes, I agree with the decision to define deferred inflows and deferred outflows as elements.	Noted.
033	A	We agree.	Noted.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	A	We think that deferred elements are distinct both from assets and from liabilities and should be defined separately. Nevertheless, we disagree with the proposed definition of these elements (see below).	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
036	C	<p>We fully understand that there are good arguments to implement an inter-period equity concept, in particular when accrual accounting is combined with accrual budgeting. However, we believe that the benefits of this concept do not outweigh both conceptual and practical issues related to this concept as it is proposed, and thus we would, for the reasons outlined below, prefer not to define deferred in- and outflows as separate elements of financial statements.</p> <p>From a conceptual point of view, we find most of the arguments expressed as the alternative view to the exposure draft convincing. In particular, we find it problematic to define resources that are not under the control of the transferor (outflows with restrictions only attached to it) as elements of the statement of financial position of the transferor. The transferor of a grant without conditions does not control the resource any longer and so the deferred reporting on the financial performance might be misleading for</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.

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		<p>the addressees of financial reporting in particular when the service recipients (not resource recipients) are located in another jurisdiction than the transferor. Similarly, the recipient in a non-exchange transaction without conditions attached to it has gained control over the resource received and so the dynamic future consumption of economic benefits is completely under the discretion of the resource recipient.</p> <p>The control-criterion in combination with the past event requirement is, for us, very important in this context as it is in most cases observable and thus reliable. Although we can see the advantages for the revenue/expense-led approach, we believe that it should not be implemented in the proposed way. The recognition of elements based on control and past events seems more reliable and less sensitive to manipulation.</p> <p>We also believe that the deferred in- and outflows model in its proposed narrow form does not necessarily take the advantages of the dynamic approach into account. On the one hand it might be that the conditions attached (clearly specified future periods) are, for whatever reason, not always met and so for similar transactions, different accounting treatments would follow and on the other hand changes in estimation or other circumstances would again lead to bias in the inter-period equity.</p> <p>We are, furthermore, of the opinion that the definition of deferred in- and outflows at the Conceptual Framework level for very specific types of non-exchange transactions with specific conditions attached may result in a mismatch with all other elements of financial statements. The conceptual extension of criteria that determine elements for such specific cases does not, in our opinion, justify the benefits intended as compared to all other transaction neutral elements of financial statements. We support a more principle based transaction neutral approach for the Conceptual Framework level.</p> <p>As mentioned above, we do believe that there are particular transactions on the recipient's side where the inter-period equity approach would indeed present fairly the substance of the transaction. We therefore would like to encourage the board to reflect on how to solve this issue on a standards level. One possibility would be to reflect on the possibility of changing the definition of condition in IPSAS 23 in the sense that quasi conditions are included or stipulations where the transferor has the expectation that the recipient complies with the intention of the transferor.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on control and past event.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>For consideration by the IPSASB.</p>
037	C	<p>We do not agree with the decision to define deferred inflows and outflows as elements. As stated in our general comments and responses to specific matters for comment 3 and 4 above we support an asset and liability led approach under which deferred inflows and deferred outflows are not identified as elements. It is our view that assets and liabilities are the principal building blocks of the system to give meaning to financial performance through the reporting of economic phenomena, with revenue and expenses reflecting changes in those phenomena. We do not support identifying deferred inflows and deferred outflows as elements because to do so requires constraining the Framework definition of the</p>	

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		elements assets and liabilities and expanding the Framework to include as new separate elements the time dimension of existing elements. We believe this outcome can only add to the complexity in financial reporting and is not consistent with addressing the concerns of stakeholders about financial reporting as articulated in the expectation gap literature.	See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.
038	C	<p>As mentioned previously, although we understand the issue that the Board is attempting to address, we disagree with including these as elements in the conceptual framework, as we do not find the justification brought forward to define these as elements sound or convincing. One justification for deferred inflows and outflows is the passage of time. The existence of other elements in the framework is based on the occurrence of a past transaction or event. Deferred inflows and outflows arise as a consequence of time, and the reasons for delaying the recognition of these revenues and expenses, is so that they are used in the period specified by the transferor, but an entity need not use the resources in that period for revenue or expenses to be recognized in that period. This reinforces the view that control either existed (in the case of deferred inflows), or was lost (in the case of deferred outflows), in earlier reporting periods. This view is consistent with the dissenting view of Jeanine Poggiolini (alternative view (AV) 7-11).</p> <p>Without reiterating all the points already made in the cover letter, we don't believe that the limitation of circumstances in which deferred inflows and outflows arise would be sufficient to prevent entities from structuring and manipulating clauses in an arrangement to achieve a desired accounting outcome.</p> <p>Additionally, using the passage of time to determine when debits are treated as deferred debits or expenses (or deferred credits or revenue) appears to be inconsistent with the views on the passage of time expressed in paragraph 3.8 – which states that 'Claims that are unconditionally enforceable subject to the passage of time therefore are enforceable obligations in the context of the definition of a liability' [emphasis added]. In other words, there seems to be an inconsistent application of the 'passage of time' requirement between the definition of liabilities and deferred inflows and outflows. Also, flows resulting from exchange transactions that are deferred to specified future periods are not considered to be deferred flows. As such, the principle underlying the recognition of deferred inflows and deferred outflows seems unclear.</p> <p>From the definition and example of deferred inflow and outflow (in paragraphs 5.2 & 5.4) a transferor who has already transferred a grant to a transferee, would not be recording that transfer upfront as an expense if there were restrictions on when the transferee can utilize the grant and vice versa. From a control perspective, it seems difficult to argue that the transferor still has control over the grant. Furthermore, would presentation of that outflow on the transferor's statement of financial position as a deferred outflow provide more useful information to a user? In particular, would it provide a representationally faithful presentation of the entity's financial position? Unless the transferor has</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>

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		<p>'clawback' provisions on the grant, (i.e. the grant is not unconditionally given to the transferee and the transferee has to refund the grant at any point in time that it breaks any clauses in the arrangement), it seems hard to argue that the transferor should not be recognizing a current outflow as an expense in the period that the grant is transferred, regardless of the period to which the grant relates.</p> <p>Also, did the Board intend to convey the notion of 'continued involvement' from the transferor of the grant in the definitions of deferred inflows and outflows, i.e. the time-based restrictions on these flows indicate that control of the grants are not fully transferred until the transferee has unconditional rights to the grant? If so, wouldn't these be a subset of revenues/expenses, instead of elements in their own right?</p> <p>Although accounting standards and practices sometimes result in deferred debits and credits being recorded on the statement of financial position, for various reasons, a conceptual framework should contain conceptual principles that are transaction neutral and applicable to a range of transactions and events, with necessary departures from the conceptual framework dealt with at the standards level.</p> <p>Also, we find the justification in BC40-BC43 contradictory and unconvincing. For example, BC42 rejects a presentational approach, on the grounds that it would have to be considered at a standards-level, which might lead to inconsistency, while arguing in BC43 that it's necessary to include deferred inflows and outflows as elements to avoid such standards-level inconsistency. If it is valid to include guidance in the conceptual framework to avoid standards-level inconsistency, then why couldn't guidance on the presentational approach be included in the conceptual framework to avoid standards-level inconsistency?</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>
039	C	<p>The AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements. Its reasons are discussed below.</p> <p>Economic phenomena</p> <p>The AASB considers that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should recognise only assets and liabilities.</p> <p>The AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements because doing so appears to mix economic phenomena and accounting devices ('deferred inflows' and 'deferred outflows') as elements of the financial statements.</p> <p>Rationale for deferred inflows and deferred outflows</p> <p>The key reason for identifying deferred inflows and deferred outflows as elements seems to be set out in paragraph BC35 of the Basis for Conclusions on the IPSASB ED, which says: "The IPSASB took the</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p>

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		<p>view that the definitions of revenue and expenses should reflect the inflows of resources used to finance such goods and services and the outflows of resources related to providing goods and services in the reporting period.” This rationale is elaborated in paragraph BC40, which says:</p> <p>“Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes. It is therefore important to be able to show separately flows that relate to specified future reporting periods, instead of including them in the Statement of Financial Performance of the current reporting period.”</p> <p>The AASB has the following concerns with this rationale for identifying deferred inflows and deferred outflows as elements of financial statements</p> <ul style="list-style-type: none"> (a) it emphasises financing the provision of goods and services; however, financing pertains to funds flows and not when revenue is generated (see the next paragraph below for an elaboration of this concern); (b) without applying definitions of assets and liabilities, it seems nebulous to determine when flows “relate” to future reporting periods (this contradicts the virtue of transparency [in defining deferred inflows and deferred outflows as separate elements] claimed in paragraph BC43); (c) when inflows of resources are not stipulated to be used to finance particular costs of services, attributing those inflows to particular costs of services would involve arbitrary allocations. For example, inflows of resources from general purpose taxes and grants without stipulations can be applied to meet costs of current period services, repay debts incurred in providing services in previous periods or meet the costs of providing services in future periods. Because cash is fungible, any allocation of those inflows to particular outflows would be arbitrary and intent-driven. The IPSASB ED does not propose allocating inflows without stipulations to future reporting periods, but this means its proposals for deferrals are an incomplete attempt to meet their rationale stated in paragraph BC35; (d) the extent to which the cost of providing outputs is recovered by revenue of the same reporting period is useful for users of financial statements of reporting entities in the private and public sectors; therefore, a public-sector-specific reason for identifying such ‘elements’ is not apparent; and (e) it does not logically lead to a conclusion that deferred inflows and deferred outflows may only arise in respect of non-exchange transactions (as is specified in the definitions of ‘deferred inflow’ and ‘deferred outflow’ in paragraphs 5.1 and 5.2). The last sentence of paragraph BC45 speaks to this scope limitation, but is merely an assertion. It seems unclear how the IPSASB will deal with hedging and other non-conceptual debits and credits arising from exchange 	

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 5 (a)</p>	<p align="center">STAFF COMMENTS</p>
		<p>transactions. However, extending the scope of 'deferred inflows' and 'deferred outflows' to include exchange transactions would appear likely to extend the scope of the concern [noted in (b) above] that, without applying definitions of assets and liabilities, it seems nebulous to determine when flows "relate" to future reporting periods. For example, in relation to redundancy payments made pursuant to exchange transactions for the provision of employee services, it could be particularly difficult to determine to which periods the payments relate. Some might treat redundancy payments as an additional cost of services already received, while others might treat them as a cost incurred to reduce future costs. Either treatment would seem arguable under a deferrals approach.</p> <p>In relation to (a) above [regarding the ED's emphasis of funds flows], the AASB observes that the third sentence of paragraph BC45 of the ED refers to stipulations regarding the <i>expenditure</i> of a property tax. This focus on stipulated expenditure, in relation to when deferral of revenue ceases, does not seem consistent with the implied goal (in paragraphs BC35 and BC40, quoted above) of recognizing revenue when related goods and services are provided. Arguably, the approach in paragraph 12 of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> (namely, recognizing 'tied' grant income when related assets are consumed, e.g. when depreciation of related assets is recognized) would be more consistent with the rationale for deferrals in paragraphs BC35 and BC40. However, the AASB does not support applying IAS 20, either. It supports using a 'performance obligations' approach—consistent with the principles of the forthcoming IFRS on Revenue from Contracts with Customers—to determine when income is recognized in respect of meeting stipulations attached to inflows of resources. The corollary of supporting the use of a 'performance obligations' approach is that, if performance obligations or other liabilities (e.g. loans) do not arise in relation to an inflow of resources, the inflow should be recognized as income immediately.</p> <p>Impact on the definitions of 'revenue' and 'expenses'</p> <p>Part (b) of the ED's proposed definitions of 'revenue' and 'expenses', in paragraphs 4.1 and 4.2, respectively, refer to inflows/outflows during the current reporting period that result from decreases in deferred inflows/outflows. These cater for reversals of deferrals (referred to in paragraph 5.5). However, they raise the question: "Inflows/outflows of what?" Ceasing to defer an inflow or outflow does not necessarily involve an inflow or outflow of service potential or economic benefits; it results from the expiry of a stipulation. For example, expiry of a stipulation over the manner in which a recipient of assets previously transferred by the reporting entity should use those assets does not involve a transfer of service potential or economic benefits to the reporting entity.</p> <p>Thus, the AASB is concerned that part (b) of each of the definitions of 'revenue' and 'expenses' incorrectly assumes an inflow or outflow of service potential or economic benefits occurs upon the expiry (reversal) of deferrals. This concern seems closely related to the concern in paragraph AV2 of the</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and outflows.</p> <p>See Agenda Paper 2A.1 for discussion</p>

[illegible]

[illegible]

R#	C #	RESPONDENT COMMENTS SMC 5 (a)	STAFF COMMENTS
		<p>In relation to the foregoing comments, the AASB agrees with this Alternative View, set out in paragraphs AV7 – AV11.</p> <p>Implications for the future</p> <p>Given that Chapter 1 of the IPSASB's Conceptual Framework says the IPSASB will apply the concepts in that Framework in developing IPSASs, if the IPSASB were to identify deferred inflows and deferred outflows as elements in its completed Framework, that decision would imply the IPSASB would give consideration to amending IPSASs to require recognition of such deferrals. If the IPSASB then decided not to amend IPSASs in that manner, it would need to explain that decision.</p> <p>Alternatively, the IPSASB could amend IPSASs to permit optional recognition of deferred inflows and deferred outflows as elements. Although such a move might be well received in some jurisdictions considering the adoption of IPSASs, it would undermine the stature of IPSASs in fostering international convergence in public sector financial reporting.</p> <p>For these reasons, the AASB considers that a decision by the IPSASB to identify deferred inflows and deferred outflows as elements in its completed Framework would have profound implications for that Framework and for IPSASs generally.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
040	C	<p>We do not agree with the decision to define deferred inflows and deferred outflows as elements. We are of the opinion that if these items meet the definition of an asset or liability then they should be classified as such and if they do not then they should not be on the balance sheet. It would be better if the definitions of assets and liabilities could be enhanced so as to encompass the (few) items that would fall into the deferred inflow/outflow category.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

Specific Matter for Comment (SMC) 5 (b):

If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 009, 010, 017, 019, 022, 029, 032, 033, 034	12
B – PARTIALLY AGREE		0
C – DISAGREE	003, 006, 008, 011, 012, 014, 015, 020, 021, 030, 035	11
SUB-TOTAL OF THOSE PROVIDING COMMENTS		23
D – DID NOT COMMENT	005, 007, 013, 016, 018, 023, 024, 025, 026, 027, 028, 031, 036, 037, 038, 039, 040	17
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
001	A	We agree with the decision to define deferred inflows and deferred outflows as elements as well as the decision to restrict those definitions to non-exchange transactions.	Noted.
002	A	Yes, if deferred inflows and deferred outflows are to be included they should be restricted to non-exchange transactions. If the decision is made to retain the deferred inflows and deferred outflows elements we have no issue with the definitions given.	Noted.
003	C	<i>The respondent included comments on SMC 5 (b) together with the response for SMC 5 (a). See response for respondent 003 above in SMC 5 (a) summary. Respondent does not agree with SMC 5 (b).</i>	See SMC 5 (a).
004	A	We agree.	Noted.

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R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
005	D	An answer is not necessary.	N/A
006	C	<p>The Council does not agree to restrict those definitions to non-exchange transactions until clarifications be provided, especially regarding operations presented in § 5.3 and § 5.4.</p> <p>The Council agrees with the proposed definitions of deferred inflows and deferred outflows, which are used to distribute expenses and revenue over time so as to attach to each financial year the expenses and revenue that pertain to it, and only those. They are neither assets nor liabilities. In this regard, the term “increases net assets” in the definition is ambiguous and should be changed to “are added to net assets to constitute the net financial position”.</p> <p>As noted above in (a), the elements of the definition of deferred revenue and prepayments should be expanded upon in the Exposure Draft. It must be kept in mind that deferred revenue is a category of non-financial debt that is recognized when the Central Government has received or recognized revenue at the reporting date, that relate to services to be performed or goods to be delivered after the reporting date. Concerning prepayments, they correspond to goods or services already paid for at the closing date, but to be delivered or rendered only at a later date.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 for discussion on net assets and net financial position.</p> <p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
007	D	<i>No comment noted.</i>	N/A
008	C	<p>If the IPSASB were to proceed with the proposal to recognize deferred flows as separate elements, we consider that a clearer distinction would need to be made between when an entity recognizes a deferred inflow (because the inflows are specified to be used in a future period) and when it recognizes a non-legal binding obligation/liability (because through, for example, past practice, it has created a valid expectation).</p> <p>If deferred flows are limited to non-exchange transactions, the Framework should include definitions for “exchange transactions” and “non-exchange transactions”. At the standards level, measurement (and re-measurement) of such deferred flows will also need to be considered.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>Exchange transactions and non-exchange transactions are defined in the IPSASB handbook.</p>
009	A	If deferred inflows and outflows are retained as separate elements, we agree that they should be limited to non-exchange transactions. The fact that consideration is exchanged between parties in an exchange transaction, the recognition of revenues and expenses is automatically limited based on parties’ performance. We have noted additional comments on the explanatory paragraphs that would need to be addressed if these elements are retained.	Noted.
010	A	In our view this will help avoid confusion for the user of financial statements, as well as increase financial transparency.	Noted.
011	C	In the definition of a deferred outflow, we would consider replacing the term “provided” to “committed” as	

R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
		<p>follows:</p> <p>“A deferred outflow is an outflow of service potential or economic benefits committed to another entity of party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.”</p> <p>We are concerned with establishing a “non-exchange transaction” as a key distinguishing feature when the term is not defined in the framework. If its use continues in its current form then non-exchange transactions should be defined and clarified in the framework. We also note that in some countries, for example, Australia, the Australian Accounting Standards board, as part of an ongoing project “income from transactions for not-for-profit entities”, is moving away from the non-exchange transaction concept. The move is in line with the Revenue from Contracts from Customers’ exposure draft issued by the IASB i.e. whether a performance obligation exists, which determines whether you get to recognize revenue and effectively a liability to perform, as a result this approach does not distinguish on the nature of transactions but the substance of what the transaction is. Having said this however, we do acknowledge that there are differences across the countries and some of the concepts may already be in existence which could lead to differing views.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p> <p>Non-exchange transaction is defined in the IPSASB handbook.</p>
012	C	<p>However, we do not agree with all components of the definitions of deferred inflows and deferred outflows. Specifically, we do not see the need for the limitation to use in a specific future reporting period and to use in association only with non-exchange transactions.</p> <p>In Concepts Statement No. 4, Elements of Financial Statements, the GASB identified and defined deferred outflows of resources and deferred inflows of resources—elements similar to the IPSASB’s proposed deferred outflows and deferred inflows. As a subsequent standards-setting project the GASB evaluated items previously reported as assets and liabilities to determine whether they met the definitions of assets and liabilities or whether they met the definitions of and should be reported as deferred outflows of resources and deferred inflows of resources. The result of the project was the issuance of Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement requires the following items be reported as deferred outflows of resources and deferred inflows of resources:</p> <ul style="list-style-type: none"> • For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt • Resources associated with imposed nonexchange revenue transactions received or reported 	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 5 (b)</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements</p> <ul style="list-style-type: none"> • Resources received from providers of resources in government-mandated or voluntary nonexchange transactions before time requirements are met, but after all other eligibility requirements have been met • Sales of future revenues • The gain or loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life • Points received by a lender in relation to a loan origination or a loan held for investment • Origination fees, including any portion related to points, direct loan origination costs, and other fees in relation to loans held for sale • In regulated industries, certain rates intended to recover costs that are expected to be incurred in the future and gains and other reductions of net allowable costs allocated to customers of future periods <p>Additionally, other GASB standards require that deferred outflows of resources and deferred inflows of resources be reported for the change in the fair value of certain hedging derivatives and for upfront payments received pursuant to a service concession arrangement.</p> <p>Many of these circumstances arise through exchange transactions and for some the associated future periods may be dependent on circumstances in those future periods and, therefore, may not be associated with specified future periods. We believe that these examples support removing the requirements that deferred inflows and outflows be limited to those associated with a specific future period and to those arising in nonexchange transactions.</p> <p>We appreciate the position of the IPSASB; however, we question whether presenting the items listed above, for example, sales of future revenues, as inflows and outflows (as they do not meet either GASB's or the IPSASB's proposed definitions of assets and liabilities) provides the most transparent, understandable, and decision-useful information for users of financial statements.</p>	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
013	D	<i>No comment noted.</i>	N/A
014	C	<u>Main view</u>	

R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
		<p>(i) Most Australian members of ACAG agree with the decision to restrict the definitions to non-exchange transactions. They believe that the prevalence of non-exchange transactions in the public sector is a key distinguishing factor from the private sector and is a sufficiently strong rationale for creating the concepts of deferred inflows and deferred outflows (and hence not aligning with the IASB Conceptual Framework).</p> <p>(ii) Most Australian members of ACAG suggest amending the definition of deferred inflows and deferred outflows for the following:</p> <ul style="list-style-type: none"> Reference to “a specified future reporting period” should be changed to “a future reporting period”. These members of ACAG believe that limiting deferred inflows and deferred outflows to situations where the future period over which the resources can be used is specified (specifically documented) in an agreement is too restrictive and would not achieve the objective that revenue and expenses (and increases/decreases in deferred inflows and deferred outflows, if these are defined as separate elements as suggested in our response to SMC 5(a) above) are flows that relate to the current period. For example: where an entity receives a grant; the grant agreement states that the grant will fund a particular research project but does not specify a period; and the research project will only be performed in the future, <p>it would appear to be appropriate to defer the revenue.</p> <ul style="list-style-type: none"> Should the IPSASB decide to adopt a restrictive approach and continue to require a specified future reporting period: the definition of “deferred inflow” should refer to “use in a future reporting period specified by an external party”; and The definition of “deferred outflow” should refer to “use by that other entity or party in a future reporting period specified by the reporting entity”. 	<p>See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.</p>
015	C	<p>(i) It is obvious that governments are used to play an important role in the so-called deferred inflows and deferred outflows and this mostly in the perspective of non-exchange transactions. The ED can restrict those definitions to non-exchange transactions, because for exchange transactions the accrual adjustments have already been foreseen by taking over the IAS/IFRS principles where exchange transactions with deferred inflows are known</p> <p>(ii) See American GASB approach above</p>	<p>Noted.</p>
016	D	<p><i>No comment noted.</i></p>	<p>N/A</p>

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R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
017	A	We agree with the decision to restrict those definitions to non-exchange transactions.	Noted.
018	D	<i>No comment noted.</i>	N/A
019	A	The Province agrees that deferred inflows and outflows should be restricted to non-exchange transactions. The Province agrees with the definition of deferred inflows and deferred outflows. If an inflow or outflow from non-exchange transactions do not relate to future periods then they are revenue or expenses of the current period.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
020	C	No, as explained above, we do not support either the decision to define deferred inflows and deferred outflows nor the proposed restriction to only non-exchange transactions within the public sector. As explained above, we believe that deferred items should not be classified as elements. The variety of different constructs potentially encountered in the public sector necessitates individual consideration of the nature of the agreement governing the inflow or outflow at standard setting level, which will allow the specific circumstances of the transactions involved to be given due consideration. Firm requirements will therefore have to be established at standard setting level.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
021	C	We strongly believe that the Conceptual Framework should only include concepts based on principles which are generally applicable to all transactions. However, due to the specific importance to public sector entities, we note that there exists a strong need to provide guidance as to when the deferred recognition of revenue and expenses, and propose that this would be appropriately addressed at standard level and not on the conceptual framework.	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
022	A	Although our preference, expressed in 5a) above, is not to have items that do not meet the definition of assets or liabilities recognized in the statement of financial position, should the proposed model be adopted, we support restricting the use of deferrals to non-exchange transactions (paragraph 5.6). The establishment of tight rules around deferred inflows and outflows is needed to maximize rigor and consistency, and minimize risk of inappropriate usage of these categories.	Noted.
023	D	<i>No comment noted.</i>	N/A
024	D	<i>No comment noted.</i>	N/A
025	D	<i>No comment noted.</i>	N/A

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R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
026	D	N/A, see above.	N/A
027	D	<i>No comment noted.</i>	N/A
028	D	<i>No comment noted.</i>	N/A
029	A	<p>(i) The Task Force takes note of the discussion of risks and benefits of restricting definitions of deferred inflows and outflows to non-exchange transactions presented in the Basis for Conclusions (paras. BC 44-46) and has no reservations against the proposed approach. In addition, revenue from exchange transactions is regulated by IPSAS 9 which addresses 'applicability' of the revenue to the reporting period through its recognition based on the stage of completion of underlying transaction/activity.</p> <p>(ii) The Task Force agrees with proposed definitions of deferred inflows and outflows. It was noted that although the CF-ED2 states that conditional revenues or expenses cannot be classified as deferred inflows or outflows, the definition of the latter does not include reference to conditionality of revenue or expense.</p>	Noted.
030	C	As stated above, our preference would be to use an asset and liability model and not separately define deferred inflows and outflows. However, if the proposed definitions are adopted, we agree with the definitions and the decision to restrict the use of these to non-exchange transactions to minimise the risk of inappropriate use of deferred inflows/outflows to manipulate the financial position of entities.	Noted.
031	D	No response required.	N/A
032	A	I suggest for the board, observed the discussion of the Government Accounting Standards Board – GASB about non-exchange, I don't know if some points can impact in this proposal, but the results increase this research. Yes, I agree with decision to restrict those definitions to non-exchange transactions. Yes, I agree with decisions of deferred inflows and deferred outflows.	Noted.
033	A	We agree. Deferred elements are relatively new concept within a standards-based approach (as opposed to rules-based approach, such as the one used by GASB). It will be difficult for standard-setters, preparers and auditors to anticipate the unintended consequences of the introduction of such an element, unless it has a restrictive definition. It may even be more practical to specifically prescribe exactly what types of transactions meet the definitions of deferred elements to ensure governments and	

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R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
		<p>public sector entities in general can accurately plan for their impact and to minimize potential disagreements, especially given Balanced Budget requirements.</p> <p>We agree. Deferred elements are relatively new concept within a standards-based approach (as opposed to rules-based approach, such as the one used by GASB). It will be difficult for standard-setters, preparers and auditors to anticipate the unintended consequences of the introduction of such an element, unless it has a restrictive definition. It may even be more practical to specifically prescribe exactly what types of transactions meet the definitions of deferred elements to ensure governments and public sector entities in general can accurately plan for their impact and to minimize potential disagreements, especially given Balanced Budget requirements.</p> <p>We suggest specifically prescribing what qualifies for a deferred element, at least initially, to help implement consistent implementation of this new financial statement element.</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	Noted.
035	C	<p>First of all, we consider that multi-year grants are part of transfer expenses which are not addressed in current IPSAS 23.</p> <p>So, it is difficult at the present stage to pass judgment on the nature of the elements covered by "deferred elements". We understand, from §5.3 to §5.4, that "deferred elements" are related to multi-year grants. In our opinion, multi-years grants are not deferred elements but are non-exchange transactions (see Specific matter for comment 2).</p> <p>In light of the foregoing, we disagree with this definition. However, as developed in Specific matter for comment 2, the principal difficulty with respect to multi-year transfers is to determine whether the associated commitments are present liabilities or potential liabilities.</p>	See Agenda Paper 2A.1 for discussion on deferred inflows and deferred outflows.
036	D	<i>No comment noted.</i>	N/A
037	D	<i>No comment noted.</i>	N/A
038	D	<i>No comment noted.</i>	N/A
039	D	Because the AASB does not support identifying (and defining) 'deferred inflows' and 'deferred outflows' as elements of financial statements, it has no additional comments on the questions in Specific Matter	

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R#	C #	RESPONDENT COMMENTS SMC 5 (b)	STAFF COMMENTS
		for Comment 5(b). The AASB's comment on Specific Matter for Comment 5(b)(i) is given above in paragraph (e) on page 14.	Noted.
040	D	Not applicable.	N/A

Specific Matter for Comment (SMC) 6 (a):

Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 010, 011, 012, 014, 025, 028, 032, 033	11
B – PARTIALLY AGREE	003, 008, 013, 018, 019, 024, 029, 030, 031, 035, 037, 039	12
C – DISAGREE	005, 006, 007, 009, 016, 017, 020, 021, 022, 023, 026, 034, 036, 038, 040	15
SUB-TOTAL OF THOSE PROVIDING COMMENTS		38
D – DID NOT COMMENT	015, 027	2
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
001	A	We agree with the IPSASB's proposal to use the terms net assets and net financial position and the definitions proposed for these terms.	Noted.
002	A	Yes, if deferred inflows and deferred outflows remain as elements there will need to be a new defined term to explain whether the resulting net position includes them or not. The term 'Net Assets' clarifies that the term is focusing on assets and liabilities.	Noted.
003	B	It is useful for the Conceptual Framework to define all relevant elements. Therefore, assuming IPSASB maintains the deferred elements, we agree that there should be (separate) definitions of these terms. However if the deferred elements are removed as we prefer, consideration would need to be given to whether the terms were needed (or were the most appropriate) dependent on the approach taken to addressing the crucial presentation of layers of financial performance.	Noted.
004	A	We agree.	Noted.
005	C	The SRS-CSPCP does not consider deferred inflows and deferred outflows as independent elements of assets and liabilities. In this sense the expression net assets is adequate and the expression net financial position is not necessary.	See Agenda Paper 2A.1 on net assets and net financial position.

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
006	C	<p>As opposed to the approach of listing each of the items that together make up these categories, the Council approves of the approach of subtracting to determine net assets and the net financial position. This approach is the most appropriate for public entities, which do not have shareholders or capital. However, the Council notes that the use of these two types of balances (net assets / net financial position) is out of the ordinary. As a result, the components of the net financial position should be clarified. Nonetheless, consistent with the Council's agreement on recognition of deferred elements, it is in favor of using these two balances.</p> <p>The Council notes that the subtraction approach to defining the net financial position appears inconsistent with IPSAS 1 (paragraph 95), which lists the items that make up the net financial position. This standard should change to conform to the approach favored under this Conceptual Framework.</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
007	C	<p>We agree with the proposal that net assets are the difference between assets and liabilities. However, we believe as explained above that deferred inflows and outflows should not be separate elements. Should the Board accept this view, the definition of net financial position would no longer be required.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
008	B	<p>We agree with the term "net assets" and its definition. This term (and its definition) is generally well understood by users and gives information about the residual interests in an entity.</p> <p>We do not agree with the term "net financial position" or its definition. The purpose and usefulness of the "net financial position" is unclear. We consider that the introduction of this term will not assist users' understanding of the financial position of an entity.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
009	C	<p>We do not agree with the term "net financial position" because we do not agree with the concept of deferred inflows and outflows. We agree with the term "net assets" and its description, including the statement that it is not an element itself. Similar to "net financial position", we are of the view that "net assets" can be a positive or negative residual amount and this should therefore be acknowledged in the context of "net assets" and not only "net financial position".</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
010	A	<p>We agree with the proposed terms and definitions.</p>	<p>Noted.</p>
011	A	<p>You ask whether <i>"we agree with the term net assets and net financial position and the definitions"</i></p> <p>We agree with the need to distinguish between net assets (difference between assets and liabilities) and the assets and liabilities after deducting deferred inflows and adding deferred outflows. We however believe that the current term "net financial position" may seem ambiguous and lack clarity for users of the financial statements. Deferred inflows and deferred outflows when meeting the recognition criteria will be classified under liabilities and assets on the face of the statement of financial position. All items recognized on the statement of financial position make up the "net assets" of the entity and to further distinguish these "net assets" into "net financial position" may be confusing or not provide usefulness in</p>	<p>See Agenda Paper 2A.1 on net assets</p>

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		this case. Further clarity of how these would practically be distinguished on the statement of financial position is required.	and net financial position.
012	A	We agree with the terms and definitions of net assets and net financial position.	Noted.
013	B	The definition of net assets is clear but recommend the definition of net financial position be modified due to the considerations expressed in comment 5 above in reference to deferred outflows and inflows.	See Agenda Paper 2A.1 on net assets and net financial position.
014	A	<u>Main view</u> Most Australian members of ACAG agree with the terms net assets and net financial position and the definitions.	Noted.
015	D	No remarks.	N/A
016	C	<p>The ED defines net assets as the difference between assets and liabilities, but does not discuss what this indicator means for a government at either the consolidated or the entity level. The ED could usefully discuss, particularly in the context of the elements and recognition criteria proposed in the ED, whether or not net assets of governments should be viewed as an indicator of a government's financial strength, solvency, or fiscal sustainability or a combination thereof. The ED could also discuss any limitations that may apply in using net assets as an indicator for such analytical purposes.</p> <p>We are also concerned that the distinction between net assets and net financial position would be difficult for users to understand. In particular, users may be confused by a balance sheet that shows a positive net asset but a negative net financial position or vice versa. For example, BC 47 states “...negative net financial position indicates that insufficient revenues have been generated at the reporting date to meet the expenses of the entity in the provision of services and should raise the question about how this shortfall will be addressed in future periods, whether from increased revenue, a reduction in expenses, or a combination of both.” The ED should discuss how these questions might be modified if the balance sheet simultaneously showed a positive net assets position and a negative net financial position. More generally, the ED could explain how to interpret balance sheets with different combinations of net asset and net financial position and changes to such combinations over time.</p> <p>We also note that the proposed term “net financial position” is very similar to the term “net financial worth” used in GFSM 2001, although they mean very different things. This could be a source of additional confusion among users of financial and statistical reports. The ED should also discuss more fully why the concepts of deferred inflows and outflows are restricted to non-exchange transactions.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p> <p>See Agenda Paper 2A.1 on net assets and net financial position.</p> <p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
017	C	We do not see the need for the distinction between net assets and net financial position. We believe this information, when it is important, can in some cases be obvious from the information in the statement of	See Agenda Paper 2A.1 on net assets and net financial position.

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		financial position or otherwise be shown in note disclosures.	
018	B	CIPFA agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained in our response to SMC 5 and elsewhere we do not consider that deferred inflows and outflows should be separate elements. Should the Board accept this view, there would be no need to separately define another measure of financial position.	See Agenda Paper 2A.1 on net assets and net financial position.
019	B	The Province agrees with the terms of net assets and net financial position. Net assets is the difference between assets and liabilities. Net financial position is the net assets plus the deferred outflows less the deferred inflows. The Province recommends that before arriving to the net asset position, financial statements should present a net debt or net asset position. The net debt position would present the financial assets less all liabilities. Non-financial assets would then be added to the net debt position to arrive at the net assets.	Noted. See Agenda Paper 2A.1 on net assets and net financial position.
020	C	We refer to our comments above.	See Agenda Paper 2A.1 on net assets and net financial position.
021	C	ICPAK agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained above that deferred inflows and outflows should not be separate elements thus eliminating the need to provide a definition for net financial position.	See Agenda Paper 2A.1 on net assets and net financial position.
022	C	Yes, we agree with the term net assets (Assets – Liabilities). As our preference, expressed in 5a) above, is not to include deferred inflows and outflows as elements of financial statements, we do not agree with the definition of net financial position because it includes deferrals (Assets + Deferred Outflows – (Liabilities + Deferred Inflows) (paragraph 6.1). IPSASB may also consider distinguishing between financial and non-financial assets on the statement of financial position, and adding a third indicator called “net debt” (or “net financial assets”) (paragraph 6.1). Canadian public sector entities following the Public Sector Accounting Handbook are required to present this indicator on their statement of financial position as it highlights the financial affordability of future government service provision. A net debt position represents a "lien" on the ability of the government to	Suggestion will be addressed under presentation. .

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		apply financial resources and future revenues to the provision of services.	
023	C	<p>No.</p> <p>Following the comments on specific matter 5 above, deferred inflows and deferred outflows should be excluded from the definitions on net assets and net financial positions.</p> <p><i>Definition -“Net assets is the difference between assets and liabilities.”</i></p> <p>a) The term net assets could be described in more detail as per the draft exposure to give consideration to some of the major elements such as :</p> <ul style="list-style-type: none"> the underlying assumption to assist in identifying and to determine the transaction which gives rise to an asset or a liability The determination which would give rise to the offset, that is, the “right of offset “which leads to the principle that the items are of the same type for offset. That the benefits derived are comparable and the flows are within the same time period. <p>This is important also when the distinction is being made between net financial positions. Or otherwise reference is to be made to the detail definition and distinction.</p>	See Agenda Paper 2A.1 on net assets and net financial position.
024	B	We do agree with the definition of net assets. However the definition for net financial position is not necessary, as we feel deferred inflows and deferred outflows should not be separate elements.	See Agenda Paper 2A.1 on net assets and net financial position.
025	A	Yes we agree with the terms.	Noted.
026	C	<p>Net assets” is of common use. But the conceptual framework should add that, because of the inherent incapacity of the public sector to identify and measure in accountancy some major specific assets, especially in relation with sovereignty and ability to generate income through constraint, the concept of “net asset”, as practiced in the financial statements, is here largely missing sense.</p> <p>The Cour disagrees with the definition of “net financial position”. This term carries more confusion than help to the user. It has a terminology focused on assets and liabilities of financial nature, which is not adequate to its purpose.</p>	See Agenda Paper 2A.1 on net assets and net financial position.
027	D	<i>No comment noted.</i>	N/A
028	A	We support the IPSASB’s efforts to define the term ‘net financial position.’ However, the term could be misleading in that it reflects deferred items in the calculation of difference between assets and liabilities. That is, deferred items are recorded in the statement of financial position to be recognized in revenue or expenses in the future reporting periods. Accordingly, they do not present the ‘financial position’ of an	

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		<p>entity, and thus IPSASB should reconsider the definition of the term itself.</p> <p>As an alternative way to define the term, we propose that net assets and net deferred flows be defined as items comprising net financial position, and the definition of ownership interest and minority interests be given in relation to net assets.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
029	B	<p>The Task Force considers the term 'net assets' and its definition to be clear, customary and acceptable to the majority of preparers and users of GPFS.</p> <p>The term 'financial position' seems to have emerged only as a result of introducing concept of deferred inflows and outflows and the Task Force is not convinced that it should be defined as a specific term due to its limited applicability. It is noted that the IPSASB is of the view that financial position may be used to assess availability of net resources of the reporting entity in future periods. However this view does not take into account current period revenues and expenses which may represent significant portion of transactions during the reporting period, which is common for public sector organizations other than governments. Such current period revenues may include reclassification of liabilities upon compliance with related conditions in the reporting period. Therefore, except for cases when deferred inflows and outflows constitute majority of transactions of the reporting entity, which is presumably more relevant to governments than to other public sector entities, use of financial position on its own for assessing future economic viability of preparers of the GPFS would not be appropriate.</p> <p>Members of the Task Force believe that introduction of the term 'financial position', as currently proposed by the CF-ED2, may unnecessarily complicate presentation of the Statement of Financial Position and is unlikely to enhance usefulness of information presented in the GPFS. It was also noted that the concept of 'financial position', as presented by CF-ED2, is not promulgated by other international financial reporting frameworks.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p>
030	B	<p>We agree with the definition of net assets and, as the ED stands, the definition of net financial position. However, if deferred inflows and outflows were not separately defined (i.e. if these transactions were considered to be assets or liabilities), it appears to us that net assets and net financial position would be the same.</p>	<p>Noted.</p>
031	B	<p>HoTARAC agrees with the term net assets, but disagrees with the need to modify the net financial position due to HoTARAC's opposition to deferred items. As stated in our response on the previous consultation paper, HoTARAC considers net assets to be a residual amount; it is not a separate element and a definition is not required. Any ownership (minority) interest on this residual amount can be treated as a sub-class of the residual amount.</p> <p>Hence, as discussed in the response to Specific Matters for Comment 5, HoTARAC does not support the concept of deferred inflows/outflows. For the same reason, HoTARAC also disagrees</p>	<p>See Agenda Paper 2A.1 on net assets</p>

R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		with the definition of net financial position, which adjusts net assets for deferred inflows/outflows.	and net financial position.
032	A	Yes, I agree with the terms net assets and net financial position and the definitions.	Noted.
033	A	We agree. Net financial position is determined by deducting any deferral balances, thus allowing users of the financial statements to clearly understand a government's longer term financial position.	Noted.
034	C	<p>The Exposure Draft sets out how net assets and net financial position are represented by the elements. Based on our understanding of the relationship, the deferred inflows and deferred outflows will be presented below net assets which will then arrive at net financial position. Based on all the elements defined in the Exposure Draft, the relationship between the elements can be represented as follows:</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> $\text{Assets} + \text{Deferred Outflows} - (\text{Liabilities} + \text{Deferred Inflows}) = \text{Ownership Contributions} + \text{Accumulated Surplus/Deficit} - \text{Ownership Distribution}$ </div> <p>We believe net assets should be an element of financial statements which consists of ownership contributions, accumulated surplus/deficit and ownership distributions. As these are part of net assets, both ownership contributions and ownership distributions are no longer the elements of financial statements.</p>	See Agenda Paper 2A.1 on net assets and net financial position.
035	B	We agree with the definition of net position. Conversely, we do not think the concept of net financial position is useful.	Noted.
036	C	Following our reply to SMC 5 the definitions of net financial position can be dropped as only the term net asset would remain.	Noted.
037	B	<p>We believe it is important that the finalized Framework specify the status of ownership-type interests in the public sector. It is our view that there will exist, on occasions, ownership interests in the public sector and in some cases there may be no identifiable ownership interest. For this reason, we consider that net assets should be regarded as a residual amount, and in many cases, this residual will represent an ownership interest. We support the definition of net assets and a treatment whereby any specific ownership interest is a sub-classification of net asset.</p> <p>For the reasons stated in our general comments and to the specific matters for comment above we see no place in the Framework for the term 'net financial position' or its definition.</p>	Noted.
038	C	As mentioned previously, we do not support defining deferred inflows and outflows as separate	Noted.

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R#	C #	RESPONDENT COMMENTS SMC 6 (a)	STAFF COMMENTS
		elements. Consequentially, it would not be necessary to include a definition for net financial position.	
039	B	<p>Net assets</p> <p>The AASB agrees with the IPSASB ED's proposals to not define net assets as an element of financial statements and to describe net assets as a residual amount rather than a residual interest. The AASB considers that, in some circumstances, it would be inappropriate to describe 'net assets' as an ownership or residual interest because there are no specifically identified parties to whom the interest would be attributable. Accordingly, its view is that the more inclusive notion of a residual amount should be applied generally in relation to an entity's net assets, and, as a residual of other elements (namely, assets and liabilities), 'net assets' would not represent an element of financial statements in its own right.</p> <p>Net financial position</p> <p>As explained in the comments above on Specific Matter for Comment 5(a), the AASB does not support identifying 'deferred inflows' and 'deferred outflows' as elements of financial statements and, consequently, does not support identifying net financial position in addition to net assets.</p>	<p>See Agenda Paper 2A.1 on net assets and net financial position.</p> <p>Noted.</p>
040	C	Given our response to SMC 5 (a) we do not agree with the term "net financial position" because it encompasses the deferred inflow/outflow elements.	Noted.

Specific Matter for Comment (SMC) 6 (b):

Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	002, 004, 007, 008, 009, 010, 011, 014, 017, 018, 021, 022, 023, 028, 029, 030, 032, 033, 038, 039, 040	21
B – PARTIALLY AGREE	003, 006, 020	3
C – DISAGREE	001, 005, 012, 013, 015, 019, 024, 025, 026, 031, 034, 035	12
SUB-TOTAL OF THOSE PROVIDING COMMENTS		36
D – DID NOT COMMENT	016, 027, 036, 037	4
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
001	C	The FMSB does not agree with the decision to define ownership contributions and ownership distributions as elements. The term owner or ownership is not a term that is normally associated with public sector financial reporting. In most public sector settings, ownership, if the term were used, would be attributed to the citizens governed by the public sector entity. If a government accepted funds contributed from another entity (such as a group of allied governments), it would be inappropriate to term the contribution as an ownership interest. Ultimately, if ownership contributions/distributions were a fundamental part of a government entity, it could be displayed as a sub-category of net position.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
002	A	Yes we agree with the decision to define ownership contributions and ownership distributions.	Noted.
003	B	<i>The respondent included comments on SMC 6 (b), (c) and (d) together with the response for SMC 6 (a). See response for respondent 003 above in SMC 6 (a) summary. Respondent partially agrees with SMC</i>	Noted.

R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
		6 (b), (c) and (d).	
004	A	We agree.	Noted.
005	C	The classification of ownership contributions and ownership distributions as own elements is not convincing, they should be treated as elements of change in equity.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
006	B	<p>The Council notes that these concepts represent transposition into the public sector, where they are of minor significance, of fundamental private-sector concepts. It is not opposed to identification of contributions from and distributions to owners; although it finds that these situations occur infrequently and essentially involve government business enterprises (out of the scope of the framework). However, the Council believes that the accounting treatment of capital contributions by the Central Government or other public entities should be specified.</p> <p>The Council also notes that pursuant to the Central Government producing consolidated financial statements, these concepts should be explored in greater detail.</p>	<p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p> <p>Noted.</p>
007	A	We agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions.	Noted.
008	A	<p>We strongly support the proposal to define “ownership contributions” and “ownership distributions” as separate elements.</p> <p>In addition, we recommend that the term “ownership interests/equity” be separately defined as an element, as the residual interest in the assets of the entity after deducting all liabilities. We consider that it is important that all elements in each of the financial statements be defined. The “flow” elements in the Statement of Financial Performance are revenue and expenses. In the Statement of Financial Position, the “stock” elements are “ownership contributions”, “ownership distributions” and “ownership interests/equity”. In our view, it is conceptually incomplete if “ownership interests/equity” is not defined as an element.</p> <p>Moreover, in our view, the IPSASB’s proposal to limit the Statement of Financial Position elements to “ownership contributions” and “ownership distributions” has significant implications at the standards level for how certain items currently excluded from the Statement of Financial Performance are treated. For example, currently, asset revaluations are recognized in equity. As changes resulting from asset revaluations are neither ownership contributions nor ownership distributions, under the proposals, they</p>	<p>Noted.</p> <p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p> <p>See Agenda Paper 2A.1 on ownership</p>

R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
		will be recognized as revenue. We query whether this is the intention of the IPSASB. We recommend that the Framework clarifies how items in the existing statement of changes in net assets/equity will be treated under the proposals.	contributions and ownership distributions.
009	A	We agree with the decision to define ownership contributions and distributions as these represent the “capital contributions” in the traditional sense which, although infrequent in the public sector, do exist. If these elements are not separately defined, it would be difficult to identify and distinguish such arrangements from transfers and/or liabilities.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
010	A	We agree with the proposed terms and definitions.	Noted.
011	A	We agree with the decision to define ownership contributions and ownership distributions as elements.	Noted.
012	C	However, we have difficulty understanding the definitions of ownership contributions and ownership distributions and their relationship to the statement of financial position, of which they are a part according to paragraph 6.2. The definitions refer to inflows and outflows of resources; however, the statement of financial position is a statement that reports balances at the end of the specified period. To be reported as a balances at a specific date, perhaps the accumulated ownership contributions and distributions (ownership interest) should be defined instead.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
013	C	It is our assumption this framework does not address government profit-oriented entities or activities, so the term “ownership” does not seem to belong in the framework. Governments do not typically raise capital through public offering of shares or other similar investment. Increases in capital come from taxation, transactions and donations, to list a few. Introducing ownership to the framework is addressing an atypical situation and would require significantly more discussion and elaboration than it currently does in the exposure draft. Governments generally have inflows of assets of two forms — one by increasing their liabilities and the other by relationships with society broadly speaking (tax levies, for example) that do not entail any obligations and, therefore, increase equity (net assets) directly.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
014	A	ACAG agrees with the decision to define ownership contributions and ownership distributions as elements.	Noted.
015	C	Ownership contributions and ownership distributions: the decision to define these terms can be questioned: to establish or to increase or decrease an interest in the net assets of a government appears to be a contradiction: in the public sector there are no shares, nor stockholders; the net assets represent long term financing without any rights for shareholders Of course it might be possible that certain governmental activities are organized by a corporate	See Agenda Paper 2A.1 on ownership contributions and ownership

R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
		organizations having shares, e.g. a bank owned by the central government, a railroad company of which the government has the majority of the shares, etc. However, such corporations are no governments and follow business accounting standards such as IFRS.	distributions.
016	D	<i>No comment noted.</i>	N/A
017	A	We agree with the decision to define ownership contribution and ownership distributions as elements. However we believe another term than “owner” should be used within the public sector.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
018	A	CIPFA is content with the decision to define ownership contributions and ownership distributions as elements.	Noted.
019	C	The Province disagrees with the IPSASB’s decision to include ownership contributions and ownership distributions as elements. The inclusion of ownership contributions and ownership distributions is inappropriate to the public sector and at best unnecessary. Most public sector entities in Canada are corporations without share capital and have no ownership interests. Transfers from governments to public sector entities are not contributions. They are revenue if the transfer relates to the current period or a deferred inflow if the economic benefits and service potential relates to future periods.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
020	B	Regarding the proposal to define ownership contributions and ownership distributions as elements, we have similar views to those expressed in response to SMC 5. We do, however, share the concerns raised in the BC49 regarding the concept of ownership and agree with the Board’s acknowledgement in BC 50 that in certain circumstances part of the net financial position. Again this will depend on specific criteria, including the formal entity structure, and thus we suggest this also needs to be addressed at the level of standard setting rather than a conceptual framework level.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
021	A	We also agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions.	Noted.
022	A	Yes, we agree with the decision to define ownership contributions and ownership distributions as elements of the financial statements.	Noted.
023	A	The decision to define the ownership contribution and ownership distribution is very important – i.e. subsidiary, quasi subsidiary, etc... As this can have a significant impact on the asset and liabilities e.g. Such as sale of a subsidiary etc. Proposing that the question be adjusted to read: Should ownership contribution and ownership distributions be regarded as elements of your financial statements? As a result the answer would be yes	See Agenda Paper 2A.1 on ownership contributions and ownership

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R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
		and the definition would be agreed on.	distributions.
024	C	We do not agree with the decision to define ownership contributions and ownership distributions as elements, they should be treated as the elements of changes in equity.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
025	C	No we do not agree because we do not agree with describing deferred inflows and outflows as separate elements.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
026	C	N/A Ownership contributions or distribution do not seem to be a relevant element in the public sector, at least in France. There is no indication that these concepts may be useful in other jurisdictions. The "fair return on surpluses" (produced by their contributions) to member states is a sensitive issue in International Organizations. It has to be looked at considering their statutory rules. These restrictions push for dealing with the proposed elements at the standard level, mainly relating to the treatment of surpluses, not in the conceptual framework.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
027	D	<i>No comment noted.</i>	N/A
028	A	We agree with the proposals.	Noted.
029	A	The Task Force does not object to the decision to define ownership contributions and distributions as separate elements of financial statements.	Noted.
030	A	We agree that ownership contributions and distributions should be defined as elements.	Noted.
031	C	HoTARAC does not disagree with the definitions. However, HoTARAC reiterates the point that it prefers convergence with IFRS rather than a new framework and disagrees with deferred inflows and outflows and owners' contributions and distributions being defined as additional elements.	Noted.
032	A	Yes, I agree with the decision to define ownership contributions and ownership distributions as elements.	Noted.
033	A	We agree in relation to entity level financial statements.	Noted.

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R#	C #	RESPONDENT COMMENTS SMC 6 (b)	STAFF COMMENTS
034	C	<i>See SMC 6 (a) for respondent comments.</i>	See SMC 6 (a).
035	C	<p>The concepts of “ownership contributions” and “ownership distributions” are not suited to the specific characteristics of the State’s and other public entities, due to the absence of share capital unless ownership stakes in companies are involved.</p> <p>Furthermore, there are other types of contributions and distributions between public-sector entities than ownership distributions and ownership contributions. In France, for example, the State’s contributions to public institutions are injections recognized in the balance sheet item “net assets”. When the injections finance the acquisition of an amortized asset, they are recognized in profit or loss on a systematic basis over the useful life of the asset.</p>	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
036	D	<i>No comment noted.</i>	N/A
037	D	<i>No comment noted.</i>	N/A
038	A	We agree with the decision to define ownership contributions and ownerships distributions for the reasons in paragraphs 6.5 and 6.6. However, we believe this section can be further expanded to help users better distinguish the difference between when an owner is making capital contributions versus funding that should be treated as revenue. It is also unclear to us, whether the Board intended that in all circumstances, where a contributor does not have a right to a return on investment (as described in paragraph 6.7), that such contributions be treated as revenue?	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
039	A	The AASB agrees with the proposal to define ownership contributions and ownership distributions as elements of financial statements. This is because reference is made to those transactions in the proposed definitions of revenue and expenses.	Noted.
040	A	Yes – we agree with the decision to define ownership contributions and ownership distributions.	Noted.

Specific Matter for Comment (SMC) 6 (c):

If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	002, 006, 007, 010, 014, 017, 018, 021, 022, 028, 029, 030, 032, 033, 038, 039, 040	17
B – PARTIALLY AGREE	003, 009, 011, 012, 020	5
C – DISAGREE	001, 004, 008, 019, 023, 024, 034, 035	8
SUB-TOTAL OF THOSE PROVIDING COMMENTS		30
D – DID NOT COMMENT	005, 013, 015, 016, 025, 026, 027, 031, 036, 037	10
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 6 (c)	STAFF COMMENTS
001	C	We disagree, see above.	See response to SMC 6 (b).
002	A	Yes we agree with the definitions of ownership contributions and ownership distributions.	Noted.
003	B	<i>The respondent included comments on SMC 6 (b), (c) and (d) together with the response for SMC 6 (a). See response for respondent 003 above in SMC 6 (a) summary. Respondent partially agrees with SMC 6 (b), (c) and (d).</i>	See response to SMC 6 (a).
004	C	<p>We suggest that the 'external parties' referred to in the definitions of both ownership contributions and ownership distributions be clearly identified and stated.</p> <p>Reason: to avoid any ambiguity as to the identity of the external parties.</p> <p>We are of the opinion that the external parties referred to here are the relevant government agencies since the discussing is about public sector in the case of Ministries, Departments and Agencies.</p> <p>However, the issue of who constitute the external parties when discussing about government itself</p>	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.

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R#	C #	RESPONDENT COMMENTS SMC 6 (c)	STAFF COMMENTS
		(Federal, State or Local) should be made clearer by the standard.	
005	D	An answer is not necessary.	N/A
006	A	The Council believes that the definition of these concepts should be expanded upon with regard to the comments on question (a) above.	See response to SMC 6 (a).
007	A	We agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions.	Noted.
008	C	We suggest that in defining ownership contributions and ownership distributions as elements, paragraphs 6.3 and 6.4 should be reworded to ensure that the contributions and distributions from/to the external parties are “in their capacity as owners of the entity” to avoid the possibility of, for example, a grant from an external party being considered an ownership contribution.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
009	B	<p>We agree in principle with the proposed definitions, but would suggest the following amendments:</p> <p>Ownership contributions are inflows of resources to an entity, contributed by external parties <u>in their capacity as owners</u> [1] that establish or increase <u>their</u> interest in the net assets of the entity.</p> <p>[1] We are of the view that it should be clear that external parties that are making ownership contributions do so in their capacity as owners. This is a particularly relevant issue because many entities are funded by external parties merely because of the funding mechanisms in place in the public sector. These transfers are not always made in an “ownership” capacity. Consequently, we would suggest adding this additional wording to make it clear that the contribution must be made as an owner rather than just a funder. Alternatively, this should refer only to “owners”.</p> <p>[2] It needs to be clear from the definition that there is not just an overall increase in the net assets of the entity (which the current wording seems to imply), but that it is the owners’ interest that has been established or increased.</p> <p>Ownership distributions are outflows of resources from the entity, distributed to external parties <u>owners</u> [1] that return or reduce an interest in the net assets of the entity.</p> <p>[1] Ownership distributions can only be made to owners as a result of their interest, and the reference to “external parties” should therefore be changed.</p>	<p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p>
010	A	We agree with the proposed terms and definitions.	Noted.
011	B	The definition of ownership contributions states that they are “inflows of resources to an entity”. We would consider expanding on the nature of inflows as future economic benefits or service potential that have been contributed to the entity. Likewise the definition of ownership distribution should expand the	

R#	C #	RESPONDENT COMMENTS SMC 6 (c)	STAFF COMMENTS
		<p>"outflows" to "outflows of future economic benefits or service potential".</p> <p>Paragraph 6.7 relating to ownership contributions may be expanded to highlight that the contributions that give a right/ entitlement to a return or increased return to owners...can be sold, exchanged, transferred or redeemed at the discretion of the owners or their representatives.</p> <p>We also note, based on our experience, having distributions and contributions to owners confined to those that establish or increase an interest is not all encompassing, as transfers into an entity which has an ownership structure of shares does not necessarily increase ownership interest percentage but should also not be recognized as revenue.</p>	<p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p> <p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p>
012	B	<p>Another concern we have with the elements and definitions associated with net asset and net financial position is how the statement of financial position articulates with the statement of financial performance. It seems clear that ownership contributions and distributions are not a part of reporting financial performance and should in some manner be presented in the statement of financial position. It is not clear how the net change in financial position is related to the indicator of financial performance on the statement of financial performance and other elements, such as ownership contributions and distributions. We recommend that the articulation between the elements of both financial statements be discussed explicitly.</p>	<p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p>
013	D	<i>No comment noted.</i>	N/A
014	A	ACAG agrees with the definitions of ownership contributions and ownership distributions.	Noted.
015	D	NA	N/A
016	D	<i>No comment noted.</i>	N/A
017	A	We agree. We find it very important to give a definition and clarify whether a transaction is an ownership contribution or an ownership distribution in order to obtain consistency among the reporting entities.	Noted.
018	A	CIPFA agrees with the proposed definitions of ownership contributions and ownership distributions.	Noted.
019	C	The Province disagrees with IPSASB's decision to include ownership contributions and ownership distributions as elements.	Noted.
020	B	We refer to our response to b.	See response to SMC 6 (b).
021	A	We also agree with the decision to define ownership contributions and ownership distributions as	Noted.

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R#	C #	RESPONDENT COMMENTS SMC 6 (c)	STAFF COMMENTS
		elements, and with the proposed definitions of ownership contributions and ownership distributions.	
022	A	The definitions of ownership contributions and ownership distributions are, in our view, appropriate.	Noted.
023	C	the decision to define the ownership contribution and ownership distribution is very important – i.e. subsidiary, quasi subsidiary, etc... As this can have a significant impact on the asset and liabilities e.g. Such as sale of a subsidiary etc. The definition could elaborate to incorporate mergers, consolidation, etc. of government entities.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
024	C	Refer to our response to question 6 (b) above.	See response to SMC 6 (b).
025	D	<i>No comment noted.</i>	N/A
026	D	<i>No comment noted.</i>	N/A
027	D	<i>No comment noted.</i>	N/A
028	A	We agree with the proposals.	Noted.
029	A	The Task Force has no reservations in relation to the proposed definitions of ownership contributions and distributions. However the related discussion in the CF-ED2 does not seem to cover the broad spectrum of arrangements in the public sector related to injection of resources to the entity as well their subsequent distribution. One example that can be used to illustrate the point is the relationship between the United Nations and the Member States, where annual contributions of the latter are recognized as revenue by the United Nations, but should the United Nations be wound up or get restructured, the Member States are likely to receive its net assets or at least decide on the ultimate distribution of such net assets. Hence it might be useful to include in CF-ED2 more practical examples which would be relevant to international organizations and public sector entities other than governments.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
030	A	We agree with the definitions of ownership contributions and distributions and agree that that it is important that transactions with 'owners' such as non-exchange funding transactions should be distinguished from contribution transactions such as resource injections to remove deficits where entities have statutory requirements not to exceed the resources allocated to it.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
031	D	No response required.	N/A

R#	C #	RESPONDENT COMMENTS SMC 6 (c)	STAFF COMMENTS
032	A	I agree with the decision to define ownership contributions and ownership distributions as elements. I agree with the definitions of ownership contributions and ownership distributions.	Noted.
033	A	We agree with the introduction of this element. It will help public sector entities account for items such as endowments. However, the word "ownership" seems out of place. Like the new deferred elements that have been introduced, we envision restrictive use of these elements.	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
034	C	<i>See SMC 6 (a) for respondent comments.</i>	See response to SMC 6 (a).
035	C	See above.	See response to SMC 6 (b).
036	D	<i>No comment noted.</i>	N/A
037	D	<i>No comment noted.</i>	N/A
038	A	We agree with the decision to define ownership contributions and ownerships distributions for the reasons in paragraphs 6.5 and 6.6. However, we believe this section can be further expanded to help users better distinguish the difference between when an owner is making capital contributions versus funding that should be treated as revenue. It is also unclear to us, whether the Board intended that in all circumstances, where a contributor does not have a right to a return on investment (as described in paragraph 6.7), that such contributions be treated as revenue?	See Agenda Paper 2A.1 on ownership contributions and ownership distributions.
039	A	<p>The AASB generally supports the proposed definitions of 'ownership contributions' and 'ownership distributions' in paragraphs 6.3 and 6.4, respectively, of the ED.</p> <p>Those proposed definitions, and paragraph 6.5, say 'ownership contributions' and 'ownership distributions' establish/increase or return/reduce an interest in the entity's net assets and acknowledge that not all transactions with owners are undertaken in their capacity as owners (i.e. affect their interest in the entity's net assets). The AASB suggests strengthening that point to provide a more robust reference point by providing examples of transactions with owners that are not undertaken in their capacity as owners, for example, in acting as a lender or customer.</p> <p>The AASB recommends clarifying the comment in the second sentence of paragraph 6.5 that: "... in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities for no consideration." In the context of the preceding words in that paragraph, the words quoted above seem to imply these transfers would not be treated as 'ownership contributions' and 'ownership distributions' (and therefore, by implication, would be identified as revenue, expenses, deferred inflows</p>	

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 6 (c)</p>	STAFF COMMENTS
		<p>or deferred outflows of the public sector entity). The AASB recommends that, regarding this important issue, the IPSASB Conceptual Framework should either:</p> <ul style="list-style-type: none"> (a) clarify whether these transfers would be identified as revenue, expenses, deferred inflows or deferred outflows of the public sector entity; or (b) indicate that the treatment of these transfers will be addressed at a Standards level. This alternative is the AASB's preference. 	<p>See Agenda Paper 2A.1 on ownership contributions and ownership distributions.</p>
040	A	<p>Yes – we agree with the definition of ownership contributions provided in practice it was regarded as an interest in the residual. We also agree with the definition of ownership distributions.</p>	<p>Noted.</p>

Specific Matter for Comment (SMC) 6 (d):

Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	004, 005, 006, 008, 009, 010, 011, 012, 014, 017, 018, 022, 023, 028, 030, 038, 039, 040	18
B – PARTIALLY AGREE	003, 020, 032	3
C – DISAGREE	001, 002, 007, 013, 019, 021, 024, 025, 026, 029, 031, 033, 034, 035	14
SUB-TOTAL OF THOSE PROVIDING COMMENTS		35
D – DID NOT COMMENT	015, 016, 027, 036, 037	5
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 6 (d)	STAFF COMMENTS
001	C	We believe that ownership interests should not be defined.	Noted.
002	C	No, ownership interests do not need to be specifically defined as the ownership interest is simply the net financial position.	Noted.
003	B	<i>The respondent included comments on SMC 6 (b), (c) and (d) together with the response for SMC 6 (a). See response for respondent 003 above in SMC 6 (a) summary. Respondent partially agrees with SMC 6 (b), (c) and (d).</i>	See response to SMC 6(a).
004	A	We are of the opinion that ownership interest should be defined as stated in BC 48 which states “ <i>the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver goods and services in the future and in the resources that may be available for redirection, restructuring or alternative disposition</i> ”. Reason: users of financial statement are keenly interested in <i>ownership interest</i> . In addition, some public sectors are not owned 100% by Government, there is therefore the need to also	See Agenda Paper 2A.1 on ownership interests. See Agenda Paper 2A.1 on ownership

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R#	C #	RESPONDENT COMMENTS SMC 6 (d)	STAFF COMMENTS
		define minority interest ownerships or non-controlling interest.	interests.
005	A	Yes.	Noted.
006	A	The Council believes that ownership interests must be defined, along with ownership contributions.	Noted.
007	C	We do not consider it necessary to define ownership interests in the conceptual framework.	Noted.
008	A	We consider that ownership interests/equity should be defined as a separate element, this being the residual interest in the assets of the entity after deducting all liabilities.	See Agenda Paper 2A.1 on ownership interests.
009	A	We agree that ownership interests should not be defined separately as these indicate how an entity's interest in another entity arises or established, rather than it being a separate element itself. How ownership interests are demonstrated varies from jurisdiction to jurisdiction and, as a result, we are of the view this should be addressed as a standards-level issue. It would however be useful at a Standards-level how ownership interests can be demonstrated as this is often a key factor in distinguishing between revenue and ownership contributions.	See Agenda Paper 2A.1 on ownership interests.
010	A	We agree with the proposed terms and definitions.	Noted.
011	A	Ownership interest should be defined in this conceptual framework due to the transfer of assets and liabilities/operations that happen within the Public sector. It is necessary to clearly outline and clarify the differences between ownership interest, contributions and distributions.	See Agenda Paper 2A.1 on ownership interests.
012	A	To be reported as a balances at a specific date, perhaps the accumulated ownership contributions and distributions (ownership interest) should be defined instead.	See Agenda Paper 2A.1 on ownership interests.
013	D	<i>No comment noted.</i>	N/A
014	A	ACAG believes that the term ownership interests should be defined as it has economic substance, being ownership claims on the public sector entity's assets. This would ensure users are aware of any of the Government's net assets which may be attributable to outside third parties.	See Agenda Paper 2A.1 on ownership interests.

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R#	C #	RESPONDENT COMMENTS SMC 6 (d)	STAFF COMMENTS
015	D	NA	N/A
016	D	<i>No comment noted.</i>	N/A
017	A	We believe that ownership interest should be defined in the conceptual framework.	Noted.
018	A	CIPFA is content that it is not necessary to define ownership interests in the conceptual framework.	Noted.
019	C	It is unnecessary to define ownership interest in the public sector environment.	Noted.
020	B	We refer to our comments above. We believe there is merit in subcategorizing ownership interests within net financial position, as this identifies the resources according to their ownership, when a formal ownership structure exists. However this is also a matter for consideration at standard setting level.	See Agenda Paper 2A.1 on ownership interests.
021	C	We believe that the proposed conceptual framework need not define ownership interests in the conceptual framework.	Noted.
022	A	Although the definitions of ownership contributions and ownership distributions are clear, we feel that the inclusion of a discussion or a definition of what constitutes an ownership interest would help ensure consistent, appropriate interpretation of which transactions will increase/decrease net assets without an effect on an entity's statement of financial performance (paragraphs 6.3-6.7). This is particularly important in a public service environment where the forms of ownership may not be clearly recognized in the financial statements, as control may exist through means other than share ownership.	See Agenda Paper 2A.1 on ownership interests.
023	A	The ownership interest should be defined in this conceptual framework as it matters how one would treat with the asset or liability – off balance sheet reporting , disclosure notes or would such ownership interest directly be reflected in the net asset or the net financial position. The ownership interest can impact significantly the net asset or net financial position and so should be defined within the conceptual framework.	See Agenda Paper 2A.1 on ownership interests.
024	C	We do not consider it necessary to define ownership interests in the conceptual framework.	Noted.
025	C	No we do not.	Noted.
026	C	No, see b)	See response to SMC 6 (b).

R#	C #	RESPONDENT COMMENTS SMC 6 (d)	STAFF COMMENTS
027	D	<i>No comment noted.</i>	N/A
028	A	<p>We believe that the Framework should define ownership interests.</p> <p>As a premise for setting the definition of ownership interests, we also suggest that the IPSASB considers the scope of ownership for public sector entities.</p> <p>For example, in public sector accounting, some believe that those who are forced to provide resources, such as taxpayers, should also be considered as the owners of public sector entities. By considering the scope of ownership of public sector entities, together with the definition of ownership interests, we believe that the IPSASB would be able to establish consistent accounting treatments.</p> <p>Comments on paragraph BC47</p> <p>The statement on net financial position in the latter part of paragraph BC47 seems to be an explanation for net assets.</p> <p>We are of the view that a positive net financial position resulting from deferred outflows will not represent “the net resources available for providing goods or services in future periods,” since an entity does not have control over those resources. Rather, deferred outflows will result in costs in future reporting periods.</p> <p>On the other hand, deferred inflows mean that an entity has resources that can be used in specified future reporting periods. Therefore, even if the entity is currently in a negative net financial position as a result of recognizing deferred inflows, the entity has resources that will be recognized as revenue in future periods.</p>	<p>See Agenda Paper 2A.1 on ownership interests.</p> <p>See Agenda Paper 2A.1 on ownership interests.</p>
029	C	The concept of ownership interest should only be defined if it is expected that it will be applicable to majority of GPFSs preparers.	See Agenda Paper 2A.1 on ownership interests.
030	A	It would be useful to provide an overall definition of what an ‘ownership interest’ is, since in the public sector particularly, this may not be an equity instrument.	See Agenda Paper 2A.1 on ownership interests.
031	C	As mentioned in the response to the previous consultation paper, HoTARAC supports the concept that transactions with owners as owners should be excluded from the performance	

R#	C #	RESPONDENT COMMENTS SMC 6 (d)	STAFF COMMENTS
		statement when there is an ownership interest (i.e. equity interest). Given that the IPSASB Conceptual Framework is proposed to be applicable at the entity level as well as at the Government level, the concept of ownership interest should be retained. At the consolidated level, ownership interests are subsumed into net assets (i.e. residual amount). The concept of 'ownership interests' should be broadened and defined but not as part of the element definition.	See Agenda Paper 2A.1 on ownership interests.
032	B	I don't know if definition is clear, but I agree.	Noted.
033	C	No.	Noted.
034	C	<i>See SMC 6 (a) for respondent comments.</i>	See response to SMC 6 (a).
035	C	No (see above).	Noted.
036	D	<i>No comment noted.</i>	N/A
037	D	<i>No comment noted.</i>	N/A
038	A	The Board could consider providing a definition for ownership interests or expand on the discussion of ownership interests. In distinguishing owners from non-owners, considering the right to a return is crucial, but equally important (perhaps more so after what was observed during the financial crisis on structured entities) that ownership not only give rise to rights to returns but also obligations on outstanding liabilities.	See Agenda Paper 2A.1 on ownership interests.
039	A	The AASB considers that the most important aspect of a public sector Conceptual Framework regarding ownership interests is that it acknowledges those interests may arise in relation to (non-GBE) public sector entities, as occurs in paragraph 6.6 of the IPSASB ED. Accordingly, the AASB is not strongly concerned that ownership interests have not been defined in the IPSASB's Conceptual Framework ED. However, the AASB notes that because 'ownership contributions' and 'ownership distributions' are defined as inflows and outflows of resources affecting interests in the entity's net assets, it would be logical to also define those interests in the entity's net assets.	See Agenda Paper 2A.1 on ownership interests.
040	A	Yes we agree with the decision not to define ownership interests.	Noted.

Specific Matter for Comment (SMC) 7:

Do you agree with the discussion on recognition? If not, how would you modify it?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	002, 004, 005, 007, 010, 011, 012, 017, 018, 019, 021, 022, 024, 028, 030, 032, 034	17
B – PARTIALLY AGREE	003, 008, 014, 029, 031, 033	6
C – DISAGREE	006, 009, 013, 015, 016, 020, 035, 037, 038, 039	10
SUB-TOTAL OF THOSE PROVIDING COMMENTS		33
D – DID NOT COMMENT	001, 023, 025, 026, 027, 036, 040	7
TOTAL RESPONDENTS		40

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
001	D	<i>No comment noted.</i>	N/A
002	A	We agree with the discussion on recognition and the decision not to include recognition criteria in the definitions of the elements.	Noted.
003	B	We agree with the discussion on recognition; however recognition uncertainty may be addressed separately by the IASB in their Conceptual Framework project (especially in relation to control as noted in our answer to Specific Comment 1, para 2). A difference between these frameworks, other than differences that arise due to differences between for-profit and not-for-profit objectives of entities, would be unhelpful.	See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.
004	A	We agree.	Noted.
005	A	Yes.	Noted.
006	C	The Council finds that the part concerning recognition is not adequately developed, and the definition and identification of the “triggering event” should be an essential point in the document, which at this	See Agenda Paper 2.1 for discussion of recognition.

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
		<p>stage does not mention it.</p> <p>The Council believes that the Exposure Draft should define the “triggering event” for the recognition of each item discussed in the Conceptual Framework (assets, liabilities, expenses and revenue) and identify criteria for recognition of each one.</p> <p>The Council accordingly recommends adding the following points to the Exposure Draft.</p> <p>An asset is recognized when it is controlled by the entity and its cost or its value can be measured with sufficient reliability.</p> <p>Intervention liabilities, which result from the Central Government’s mandate as an economic and social regulator, are recognized when all necessary conditions for establishing the beneficiary’s entitlement have been met at the closing date and these conditions need not be maintained during subsequent periods. If this is not the case, these obligations correspond to the concept of commitments and are shown in the Notes to the financial statements.</p> <p>Concerning expenses, the triggering event is the “service rendered”. For goods, the service rendered corresponds to the delivery of goods; for services, the completion of the service provided; and for compensation of personnel, the service provided by the agent.</p> <p>In the specific case of intervention expenditure, the service rendered corresponds to the fulfillment or maintenance, during the period relating to the closed-out financial year, of all conditions necessary to establish the beneficiary’s entitlement.</p> <p>For revenue, the Council recommends using the general principle that revenue is recognized when it is received.</p> <p>Eventually, the council would like the framework to deal with the question of the contingent liabilities, indicating that those commitments should take place in the Notes.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p>
007	C	We agree with the proposed recognition criteria and their relationship to disclosures.	Noted.
008	B	<p>We agree with the discussion on recognition. However, we recommend that the IPSASB considers whether “past event” should be discussed as part of recognition criteria under “existence uncertainty”, rather than as part of the definition of “asset” and “liability”. In this regard, we recommend that the IPSASB monitors the IASB’s conceptual framework project with a view to aligning the two Frameworks on this issue.</p> <p>We note that section 7 of the ED discusses existence uncertainty and measurement uncertainty as recognition criteria but does not set out any recognition thresholds or criteria for when an item should be recognized. In our view, existence uncertainty is effectively a means of determining whether an entity presently controls a resource or has a present obligation (that is, part of the definition of an element) and measurement uncertainty is effectively a means of choosing between different measurement bases (that is, part of the measurement). We recommend that the Framework includes guidance on measurement thresholds and criteria.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p>

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
009	C	<p>We do not agree that uncertainty related to the existence of an item should only be considered when it is measured. If this approach is followed, then an entity will recognize all assets and liabilities that meet the relevant definition of an element and can be measured reliably. This may result in a number of items being reflected in the statement of financial position at a low value because of uncertainty around the inflow of economic benefits or service potential. We do not believe that this adequately reflects how a government has exercised accountability over its resources and obligations. This approach merely reflects the quantification of all an entity's resources and obligations and is a highly complex mathematical exercise. Recognition on this basis might also increase use of a current value measurement bases as entities would need to quantify uncertainty on an ongoing basis. We do not believe that it will enhance decision-making and accountability over those assets and liabilities that an entity manages and is accountable for.</p> <p>We propose using a threshold (consistent across assets and liabilities) for the recognition of assets and liabilities that best represents the use of an entity's resources by an entity. The quantification of the rights and obligations currently envisaged by the proposed approach may, in certain circumstances, be useful as additional information disclosed in the notes to the financial statements.</p> <p>As an alternative, we suggest using probability as well as reliable measurement as criteria for the recognition of elements.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p> <p>See Agenda Paper 2.1 for discussion of recognition.</p>
010	A	Agree.	Noted.
011	A	We agree with the discussion on recognition. Recognition is a separate process after a transaction or other event has met the definition of an element.	Noted.
012	A	We agree with the discussion of recognition in financial statements; however, we noted an inconsistency between the discussion in paragraph 7.1 and the additional discussion of measurement uncertainty in paragraph 7.5. The first paragraph indicates that one of the features an item must possess to be recognized in the financial statements is that it can be measured in a way that meets the qualitative characteristics. In paragraph 7.5, the discussion addresses relevance and faithful representation, but does not address the other qualitative characteristics. This appears to imply that relevance and faithful representation are the most important qualitative characteristics.	See Agenda Paper 2.1 for discussion of recognition.
013	C	<p>The concept of government's legal power of enforcement is an important basis for recognition in addition to transactions. We recommend modifying paragraph (item) 7.3 by adding the following sentence.</p> <p>"Government legal power of enforcement (e.g., taxation) is also one of the primary bases for recognition and de-recognition of items as elements."</p>	See Agenda Paper 2.1 for discussion of recognition.

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R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
014	B	<p>ACAG agrees that recognition is a distinct stage in the accounting process so that the definitions of the elements do not include recognition criteria. However, we do not agree with the fact that, although there is a discussion of existence uncertainty and measurement uncertainty, there is an absence of any explicit recognition criteria or principles in the draft Framework. We believe this section of the Framework could be improved by:</p> <ul style="list-style-type: none"> • The inclusion of specific recognition criteria for elements, to be applied once all available evidence has been assessed in determining whether an element exists. Elements should be recognized where: • In the entity's judgment, the element exists; and • The cost or value of the element can be reliably measured. <p>As mentioned in our response to SMC 2(a) above, it would be useful if recognition criteria or principles for social benefits obligations as liabilities in the statement of financial position are addressed in the Framework.</p>	See Agenda Paper 2.1 for discussion of recognition.
015	C	This section should be examined scientifically by specialists in terms of "accounting theory".	See Agenda Paper 2.1 for discussion of recognition.
016	C	The ED notes that "... if it is determined that an element exists, uncertainty about the flows of service potential or economic benefits related to that element are taken into account in the measurement of that element." We would suggest that this concept should be explained more fully. In particular, the ED should clarify if this represents a change from the existing practice under which, for example, a provision is recognized when, among other things, it is considered probable that an outflow of resources will be required to settle the obligation. Our understanding is that under this principle where the probability of an outflow is considered less than 50 percent, a provision is not recognized. The ED should clarify whether the conceptual framework is proposing a change whereby these items that are currently not recognized, would be recognized in the future and the probability of the outflow would be taken into account in the measurement of the provision.	See Agenda Paper 2.1 for discussion of recognition.
017	A	We agree with the discussion on recognition. However we believe that the terms exchange revenue and non-exchange revenue should be defined in the conceptual framework.	See Agenda Paper 2.1 for discussion of recognition.

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R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
018	A	CIPFA agrees with the proposed recognition criteria and their relationship to disclosures.	Noted.
019	A	<p>The Province agrees with the discussion on recognition. Recognition involves an assessment of existence uncertainty and measurement uncertainty. Determining whether the definition of an element has been satisfied requires professional judgment. Transactions are the most common basis for recognizing and derecognizing items as elements although the occurrence of a transaction is not necessary for an element to exist.</p> <p>In order to recognize an element it is necessary to measure the element by attaching a monetary value. The use of estimates is an essential part of measuring elements. The selection of an appropriate measurement basis is discussed in ED 3 – Measurement of Assets and Liabilities in Financial Statements.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p> <p>\</p>
020	C	<p>We do not see that there are any public sector specifics that would justify a different approach to recognition from that taken by the IASB.</p> <p>Accordingly, at the present time we suggest that it is necessary for the CF to be clear that in assessing existence uncertainty in relation to assets and liabilities there it has to be probable that any future benefit associated with the item will flow to or from the entity. The factors relevant for in this assessment have been discussed in the individual sections relating to assets and liabilities. However, the second sentence of paragraph 7.4 needs to be precise on this point, i.e. clarify that the probability has to exist. We note however that the IASB papers from February 2013 indicate that retention of this “probability test” is one of the issues subject to further discussion.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p> <p>\</p>
021	A	ICPAK agrees with the proposed recognition criteria and the related disclosures.	Noted.
022	A	We agree that in order to have an element recognized in the financial statements, the uncertainty regarding its existence and measurement must be addressed. We think the discussion is presented at the right level for a Conceptual Framework, recognizing that more detailed guidance may be needed in the standards themselves to help preparers / users assess an acceptable level of uncertainty.	Noted.
023	D	<i>No comment noted.</i>	N/A
024	A	We agree with the proposed recognition criteria.	Noted.
025	D	<i>No comment noted.</i>	N/A
026	D	The Cour des Comptes has no comment on that point.	Noted.

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
027	D	<i>No comment noted.</i>	N/A
028	A	We agree with the discussion on recognition. We believe that derecognition can also be applied to deferred inflows and deferred outflows. We recommend for the IPSASB to clarify that the case “[W]hen the specified future reporting period occurs,” stated in paragraph 5.5, will not be within the meaning of the derecognition of deferred inflows and deferred outflows.	See Agenda Paper 2.1 for discussion of recognition.
029	B	It was noted that the CF-ED considers that use of standardized threshold criteria to assess existence uncertainty may not meet some of the qualitative characteristics of GPFS. The IPSASB therefore concluded that “all available evidence should be assessed in determining whether an element exists and that uncertainty about the flows of service potential or economic benefits should be taken into account in measurement” (para. BC 55). The Task Force is of the view that discussion on recognition in the CF-ED2, although interesting and overall useful, addresses recognition mostly on theoretical level and should be supplemented by examples and more practical guidance for each element of the GPFS.	See Agenda Paper 2.1 for discussion of recognition.
030	A	We agree that recognition can be defined as incorporating items meeting the definition of elements into the financial statements. We also agree that there are two elements to this, what value to recognise items at (measurement uncertainty) and when to recognise them (existence uncertainty). ‘What value’ is covered by paragraph 7.5 and we agree that it is necessary to be able to attach a monetary value to items and where this cannot be achieved, no item should be recognised. ‘When’ is covered by paragraphs 7.3 and 7.4 ‘Existence Uncertainty’. We consider that a threshold approach would provide more clarity and a suitable threshold for recognition would be ‘probable’ i.e. ‘all available facts and circumstances should be taken into account to determine if it is probable that the element exists (i.e. the definition of the element has been met) at the reporting date.	See Agenda Paper 2.1 for discussion of recognition.
031	B	HoTARAC is generally comfortable with the discussion on recognition, However, HoTARAC believes the IPSASB need to provide clearer guidance on what determines existence certainty and on how to assess measurement certainty. It is also unclear how the concept of control which is part of the definition of an asset is also incorporated as part of the concept of existence uncertainty. In this regard, it is noted that the IASB is currently considering whether to move the reference to control from the definition of an asset to the recognition criteria (refer IASB February 2013 meeting summaries). HoTARAC also suggests materiality be addressed as part of the recognition criteria.	See Agenda Paper 2.1 for discussion of recognition.

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
		HoTARAC further strongly recommends a threshold of 'probable' be applied to recognition of an element and reliable to the criteria for assessing measurement certainty. Recognition of items that are not at least 'probable' will result in the recognition of items that, on balance, are unlikely to occur and, more frequently than not, would subsequently be derecognised. HoTARAC further recommends 'probable' be defined within the conceptual framework. HoTARAC support the IPSASB's proposals for derecognition of an item.	See Agenda Paper 2.1 for discussion of recognition.
032	A	I agree with the discussion on recognition.	Noted.
033	B	We do not object to this discussion, although it is unclear why measurement uncertainty is a part of a discussion on recognition.	See Agenda Paper 2.1 for discussion of recognition.
034	A	We agree with the Specific Comments raised in the Exposure Draft other than Specific Matter for Comment 6 as detailed below.	See response to SMC 6.
035	C	The developments on the recognition criteria do not provide a clear enough definition of the triggering event for the recognition of assets and liabilities specific to the public sector and the associated expenses and revenue. Recognition of expenses is based on recognition of the service rendered, which depends on the nature of the involved transaction. In the case of allocation of frequencies to telecommunications operators in exchange for license fees, it is the transaction with the operators that allows for recognition as assets. Indeed, the transaction shows the economic benefits associated with the use of the radio spectrum. In the case of transfer's outflows, the triggering event for recognition of the associated liabilities is the fulfillment of eligibility criteria, as described in Specific matter for comment 2.	See Agenda Paper 2.1 for discussion of recognition. See Agenda Paper 2.1 for discussion of recognition.
036	D	<i>No comment noted.</i>	N/A
037	C	We agree with the proposal in the ED that the Framework treat the recognition criteria as a separate and distinct phase from the establishment of the definitions of the elements of financial statements. However, we note that although Section 7 of the ED is headed 'Recognition Criteria' no explicit recognition criteria are set out. We recommend that explicit recognition criteria are included. We also believe that the recognition criteria should be neutral, meaning the same for all assets and liabilities, as well as being a neutral judgment whether the element exists at reporting date. Paragraph BC52 identifies two types of uncertainty that need to be considered in determining whether	See Agenda Paper 2.1 for discussion of recognition.

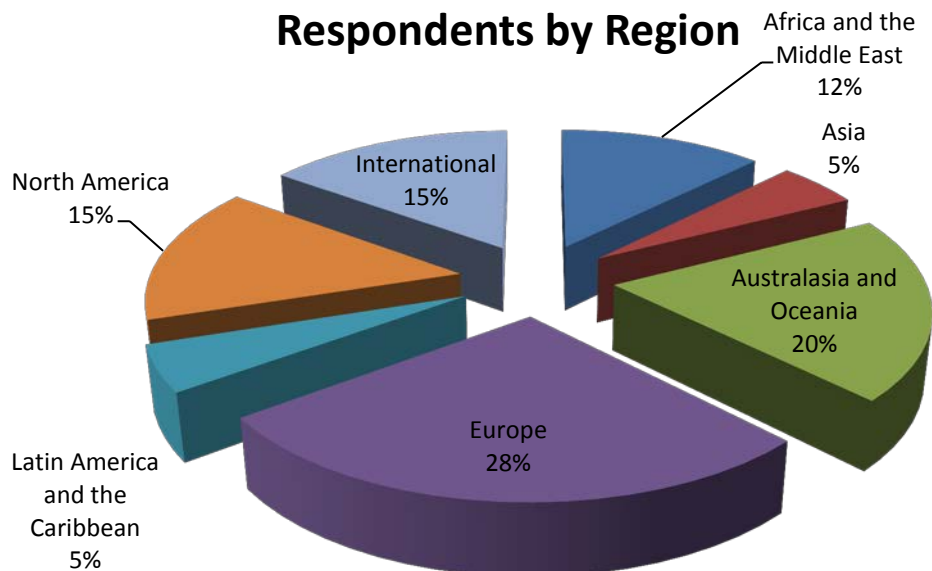
R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
		<p>an element should be recognized – existence uncertainty and measurement uncertainty. As we are not familiar with the concept of existence uncertainty we had expected that its explanation in the Framework would enable us to assess its level of neutrality. As our expectation was not satisfied we encourage the IPSASB to improve the quality of the explanation given.</p> <p>The Framework describes a second type of uncertainty; measurement uncertainty. After reading that description we have concluded that the Framework supposes a monetary item including zero can always be attached to the item being measured. We disagree. We believe there may be occasion when for a particular item there is no measurement basis that satisfies the qualitative characteristics of the Framework. Consequently, the item being measured is not able to have a monetary item attached to it.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p> <p>See Agenda Paper 2.1 for discussion of recognition.</p>
038	C	<p>This section discusses existence uncertainty and measurement uncertainty as recognition criteria, but it's unclear whether there is any particular recognition threshold. It would be helpful if the IPSASB further explain existence uncertainty in the recognition criteria. In certain cases, it may be uncertain whether an asset or liability exists, therefore further guidance on whether an explicit probability threshold should be applied in such cases, what the threshold should be (e.g. virtually certain, probable) and whether the threshold for an asset should be the same as for a liability, would be helpful to constituents.</p> <p>Further, the comments in paragraph 7.5 include reference to 'sufficient' but there is no indication of whether this is intended to create a recognition threshold. In particular, does it infer that an item should not be recognized if it cannot be measured with a 'sufficient' level of faithful representation? We also think that measurement uncertainty belongs in the measurement section of the conceptual framework (see our comment letter on ED 3 <i>Measurement of Assets and Liabilities in Financial Statements</i>), in helping entities choose between the different measurement attributes.</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p> <p>See Agenda Paper 2.1 for discussion of recognition.</p>
039	C	<p>The AASB notes that, although Section 7 of the ED is headed 'Recognition Criteria', no explicit recognition criteria are set out. The AASB recommends including explicit recognition criteria in the IPSASB Conceptual Framework that are neutral, both in:</p> <ul style="list-style-type: none"> (a) requiring a neutral judgement of whether an element exists at the reporting date; and (b) Specifying the same recognition threshold for all assets and liabilities. <p>The AASB recommends applying the same criteria to both recognition and derecognition of each element. However, at this stage, the AASB considers it is premature, without further proposals by the IPSASB, to indicate how those recognition criteria should be worded.</p> <p>In relation to 'measurement uncertainty', paragraphs 7.5 – 7.6 of the ED do not indicate whether it is possible that no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition. The AASB recommends clarifying the position of the</p>	<p>See Agenda Paper 2.1 for discussion of recognition.</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 2
IPSASB Meeting (June 2013)

R#	C #	RESPONDENT COMMENTS SMC 7	STAFF COMMENTS
		Conceptual Framework on this issue. It would prefer that the Conceptual Framework indicates that, in rare circumstances, such as some legal disputes for unspecified amounts of damages, no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition.	See Agenda Paper 2.1 for discussion of recognition.
040	D	We have no comments to make on the discussion on recognition.	Noted.

CONCEPTUAL FRAMEWORK ELEMENTS**Analysis of Respondents by Region, Function, and Language****Geographic Breakdown**

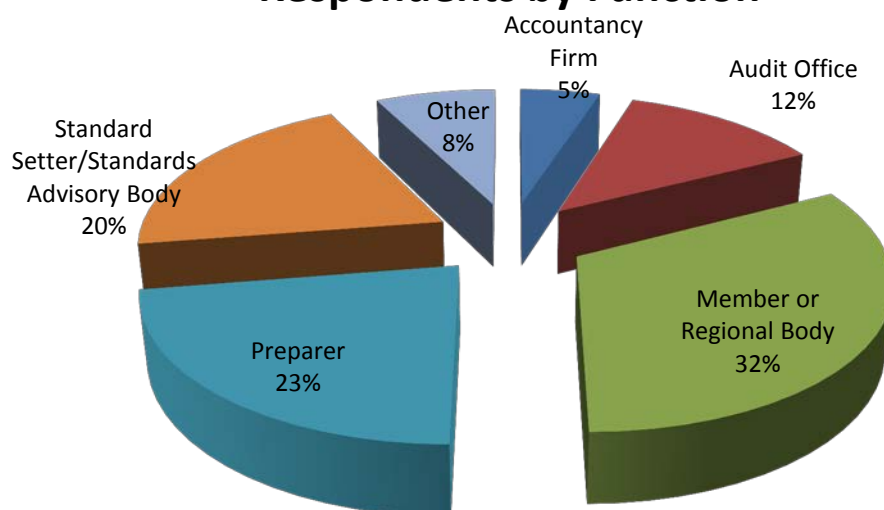
Region	Respondents	Total
Africa and the Middle East	4, 9, 21, 24, 25	5
Asia	28, 34	2
Australasia and Oceania	2, 3, 8, 14, 27, 31, 37, 39	8
Europe	5, 6, 15, 17, 18, 20, 26, 30, 35, 36, 40	11
Latin America and the Caribbean	23, 32	2
North America	1, 12, 13, 19, 22, 33	6
International	7, 10, 11, 16, 29, 38	6
Total		40



Functional Breakdown

Function	Respondents	Total
Accountancy Firm	11, 38	2
Audit Office	14, 22, 25, 26, 30	5
Member or Regional Body	4, 7, 10, 13, 15, 18, 20, 21, 23, 24, 28, 34, 37	13
Preparer	1, 2, 3, 19, 29, 31, 33, 35, 36	9
Standard Setter/Standards Advisory Body	5, 6, 8, 9, 12, 17, 39, 40	8
Other	16, 27, 32	3
Total		40

Respondents by Function



Linguistic Breakdown:

Language	Respondents	Total
English-Speaking	1, 2, 3, 4, 8, 9, 10, 11, 12, 13, 14, 16, 19, 21, 24, 27, 29, 31, 37, 38, 39, 40	22
Non-English Speaking	5, 6, 15, 17, 18, 20, 23, 26, 28, 32, 35	11
Combination of English and Other	7, 22, 25, 30, 33, 34, 36	7
Total		40

