

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 17–20, 2013

Agenda Item 2

For:

☐ Approval

☒ Discussion

☐ Information

Conceptual Framework

Objective(s) of Agenda Item

1. The objectives of the sessions on the Conceptual Framework are:
 - To (a) **provide** the current timetable for the project; (b) to **update** members on developments in the IASB Conceptual Framework project and discuss its relationship with the IPSASB project; (c) note the circulation of the Preface in late April 2013 with a view to making it available on the website as an advanced staff draft; and (d) note the publication of an Exposure Draft;
 - To **carry out** an initial review of responses received by the end of May 15th 2013 to the Exposure Draft, *Elements and Recognition in Financial Statements* (CF–ED2); and
 - To **carry out review** an initial review of responses received by the end of May 15th 2013 to the Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (CF–ED3).

Material(s) Presented

Agenda Item 2.1	Coordinator's Report
Agenda Item 2A	Initial review of responses to Exposure Draft, <i>Elements and Recognition in Financial Statements</i>
Agenda Item 2B	Initial review of responses to Exposure Draft, <i>Measurement of Assets and Liabilities in Financial Statements</i>

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

Objectives of Report

1. The objectives of this report are to:
 - **Highlight** the most up-to-date version of the project timetable;
 - **Note** developments in the International Accounting Standards Board's (IASB) Conceptual Framework project and **discuss** its relationship with the IPSASB's Conceptual Framework project;
 - **Note** the circulation of the revised Preface for review with a view to making it available as an advanced staff draft; and
 - **Note** the publication of a Consultation Draft of its Framework by the International Integrated Reporting Council.

Project Timetable

2. A revised project timetable was circulated following the March 2013 meeting. A further version is attached at Appendix A. This reflects the publication of the Phase 4: Presentation ED in April 2013 and the circulation of the Preface to Members, TAs and Observers in late April 2013.
3. The Coordinator notes comments in previous agenda papers that, despite good progress, the timing for completion of the Framework remains very tight and demanding in some places. In accordance with normal procedure the timetable will be updated and circulated shortly after this meeting.
4. The project timetable does not envisage the issuance of an umbrella or integrated Respondent 009 to CF-ED2 (010 to CF-ED3) suggested that it may be necessary for the IPSASB to issue an integrated or umbrella ED for comment once the various phases are complete.

Matter(s) for Consideration

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

IASB Conceptual Framework

5. The IASB has concluded the public substantive consideration of issues related to its Conceptual Framework project. At its May meeting the IASB agreed to ballot members on the Discussion Paper (DP) of its Framework in June with a view to publication on July 3rd. There will be a consultation period of 180 days. The revised date for finalization of the project is December 2015.
6. The DP will be a voluminous document and include numerous examples and references to, and discussion of, issues in current International Financial Reporting Standards. This is partially due to the IASB's maturity as a standards setter and reflects a view that the Framework should address problem areas identified in current International Financial Reporting Standards (IFRS), in particular the debt-equity distinction and principles for other comprehensive income and recycling.

7. As indicated previously IASB Staff have confirmed that it is not the intention to reopen chapters 1 and 3 of the Framework, which deal with the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. These chapters were completed before the previous IASB–Financial Accounting Standards Board joint project was paused in 2010. However, these chapters will be included in the DP so that readers are able to see the interrelationship with the new material. The DP will not include discussion of the reporting entity, on which an earlier Discussion Paper and Exposure Draft were issued before the joint project was paused in late 2010. However, the integrated Exposure Draft that IASB intends to issue in mid-late 2014 will include material on the reporting entity, based on the 2010 Exposure Draft, and updated in the light of comments received on that Exposure Draft.
8. Some of the recent tentative decisions and discussion have included:

Elements and Recognition

- The draft definition of an asset is: *An asset of an entity is a present economic resource controlled by the entity as a result of past events.*
- The draft definition of a liability is: *A liability of an entity is a present obligation of the entity to transfer an economic resource as a result of past events;*
- The draft definition of an economic resource is: *An economic resource is a right, or other source of value, that is capable of producing economic benefits, but only for the party that controls it;*
- The draft definition of an asset includes reference to control. In earlier Staff proposals control had been a recognition criterion;
- The draft definitions of both an asset and a liability include references to past events. Previously there had been no reference to past events on the grounds that references to a present economic resource (asset) and present obligation (liability) made references to past events redundant;
- The draft definition of a liability does not include a reference to “little or no realistic alternative to avoid an outflow”, which is in the draft IPSASB definition of a liability;
- In the context of conditionality/future events for liabilities the IASB has not established a consensus or preliminary view on a specific approach. However, it has rejected the position that obligations must be unconditional in order for a liability to arise;
- There has been considerable discussion of the distinction between a constructive obligation and economic compulsion in the context of present 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 economically compelled to act in its own best interests, or in the best interests of its shareholders, appear clear cut. However, in interpreting economic compulsion in a contractual context it is necessary to disregard terms and options that have no commercial substance;
- The analysis of recognition distinguishes existence uncertainty and uncertainty of outcome. The latter is broadly similar to what the IPSASB has termed “measurement uncertainty”. The IASB has tentatively decided that the Conceptual Framework should not set a probability threshold to determine whether an asset or liability exists, in the rare cases when this is

uncertain. If existence uncertainty is significant in a particular project, the IASB would decide on appropriate thresholds in that project;

- There are few perceived problems with the definitions of income and expenses in the current Framework and any changes to those definitions are likely to be limited to minor drafting changes resulting from changes to the definitions of the other elements; and
- The DP is likely to acknowledge the distinction between (i) revenue arising in the course of the ordinary activities of an entity and gains, which represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of the entity; and (ii) expenses that arise in the course of the ordinary activities of an entity and losses, which may, or may not, arise in the course of the ordinary activities of the entity. However, the DP will not propose these four categories as four separate elements.

Measurement

- There is no intention to move from the current mixed measurement model;
- The DP will not propose a measurement objective based on a particular measurement basis;
- The DP will identify measurement principles or a broad measurement principle based on the fundamental qualitative characteristics (relevance and faithful representation) and cost-benefit considerations; and.
- Discussion of measurement bases has focused on fair value and cost. The DP will also include consideration of other cash flow based measures and will identify issues related to such measures including discounting, discount rates and whether cash flow measures should reflect uncertainty and remeasurement.

Presentation

- The DP will consider approaches to distinguishing items for inclusion in profit and loss from items for inclusion in other comprehensive income (OCI); and
 - The DP will also identify approaches for recycling items into profit and loss from OCI.
9. The relationship between the IASB's Framework and the IPSASB project has been raised by numerous constituents in responses to earlier Framework documents. The issue has been given renewed impetus by the IASB's aggressive timetable and the imminent publication of the IASB's DP. A number of respondents to both the *Elements and Recognition* and *Measurement* EDs expressed strong views on the relationship with the IASB project. They highlighted the reactivated IASB project and made suggestions including that the IPSASB (i) defer further work until the IASB has completed its Framework, (ii) align definitions with those developed by the IASB, (iii) have the same elements (although definitions might differ for public sector reasons) or (iv) adopt the same definitions of elements and (v) achieve an appropriate degree of consensus with the IASB on key aspects before finalizing the Framework project (for CF-ED2 see, for example, Responses 003, 007, 008, 014, 020, 031, 033, 034, 038, 039 & 040) (for CF-ED3 see, for example, Respondents 003, 011, 020, 028, 033, 035, 036 and 037).
10. Respondent 039 to CF-ED2 emphasized the importance of maximizing liaison with IASB on the two Boards' respective Conceptual Framework projects in the context of the 2011 Memorandum of Understanding between IFAC and the IASB with a view to ultimate development of a single converged Conceptual Framework. Respondent 028 to CF-ED3 considered that 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 Framework is warranted. Respondent 035 made similar comments to the above two respondents. Conversely, Respondent 018 to CF-ED 3 was supportive of the Framework project not being an IFRS convergence project or an interpretation of the IASB Framework. Numerous other respondents, while not making a direct reference to the IASB Framework, advocated approaches that are not likely to be in accordance with the IASB's approach. (See, for example, Respondents 019, 024, 030 and 032 to CF-ED 3).

11. The IPSASB has previously reaffirmed that its Framework project is not an interpretation of the IASB's current or evolving Framework. IPSASB Staff have monitored developments in the IASB project and have already identified areas where, following issue of the DP, they think that the IPSASB may want to revisit issues in the light of approaches in the IASB project. Staff will analyze the forthcoming DP with a view to ensuring that divergences from the IASB's approach are justified by public sector considerations. This is in accordance with the approach recommended by Respondent 036 to CF-ED3. Staff is proceeding on the basis that the IPSASB does not wish to modify its current approach.

Matter(s) for Consideration

2. The IPSASB is asked to **note** developments in the IASB's Framework and, in particular, the views of those respondents that have highlighted and questioned the relationship between the IASB Conceptual Framework project and the IPSASB Framework project. The IPSASB is asked to indicate if it wishes to modify the current approach to its Framework project in the light of developments in the IASB project.

Preface

12. At the March meeting it was decided to defer approval of the *Preface* (formerly *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*) until the remaining chapters of the Framework are finalized. This will allow the linkages between the characteristics identified in the Preface and the concepts in the individual chapters of the Framework to be made more explicit. Members gave directions for a number of changes to the Preface and it was agreed that a revised version would be circulated and views sought as to whether the Preface should be made available on the website as an advanced staff draft.
13. The revised version was circulated on April 30th. As at May 24th eight responses had been received. A number of these respondents made detailed drafting suggestions. All indicated that they supported posting a revised version on the website. Staff is very grateful for the input from these Members, TAs and Observers. Staff would welcome an indication whether there is more general support for making the Preface available. If there is general support, the Preface will be revised and posted on the website in mid-July with a clear statement that it has not been approved by the IPSASB and is a staff document.

Matter(s) for Consideration

3. The IPSASB is asked to **provide a view** on whether the Preface should be made available on the website.

Consultation Draft of Integrated Reporting Framework

14. The International Integrated Reporting Council (IIRC) issued a Consultation Draft of the *Integrated Reporting Framework* in late April 2013. The Consultation Draft is open for comments until July 15th 2013. The CIPFA paper, *Integrated Reporting and Public Sector Organisations*, on the implications of integrated reporting for the public sector has been revised in light of the IIRC Consultation Draft, and is available from staff on request.

Matter(s) for Consideration

4. The IPSASB is asked to **note** the issue of the Consultation Draft of the Integrated Reporting Framework by the IIRC.

Appendix A: Conceptual Framework Project Timetable 2010–2014

	Phase 1: Objectives, QCs, Scope & RE	Phase 2: Elements and Recognition	Phase 3: Measurement	Phase 4: Presentation	Key Characteristics of Public Sector
Dec 2010	<i>ED Issued</i>	<i>CP Issued</i>	<i>CP Issued</i>		<i>Made available on web as Staff Draft</i>
Mar 2011				<i>CP Discussed</i>	<i>ED Approved (Issued in April)</i>
Jun 2011				<i>CP Discussed</i>	
Sep 2011	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>RR Directions to Staff</i>	<i>CP Discussed</i>	
Dec 2011	<i>RR Directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>	<i>CP Approved (Issued January 2012)</i>	
Mar 2012	<i>FC Review and directions to Staff for finalization</i>	<i>RR Further directions to Staff</i>			<i>RR Directions to Staff</i>
Jun 2012		<i>ED Discuss</i>	<i>ED Discuss</i>		
Sep 2012	<i>Decision to approve FC in December and publish in late December 2012 or January 2013</i>	<i>ED Approved Issued October</i>	<i>ED Approved Issued October</i>	<i>RR Directions to Staff</i>	<i>Decision to approve in December and publish in late December 2012 or January 2013</i>
Dec 2012	<i>FC Approved Published in January 2013 (Note A4)</i>			<i>ED Discuss</i>	<i>FC Review and Directions to Staff for finalization (Note A5)</i>
Mar 2013				<i>ED Approved Published in April 2013 (Note A3)</i>	<i>FC Review and further Directions to Staff for finalization (Note A5)</i>
June 2013		<i>RR Initial directions to Staff</i>	<i>RR Initial directions to Staff</i>		
Sept 2013		<i>RR Further directions to Staff</i>	<i>RR Further directions to Staff</i>		
Dec 2013		<i>FC Review and directions to Staff for finalization</i>	<i>FC Review and directions to Staff for finalization</i>	<i>RR Directions to Staff</i>	
Mar 2014		<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>	<i>FC Approve and incorporate in Final Framework</i>

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

Assumptions and Accompanying Information

- A1. There was an exposure period of six months for the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers—comment period ended mid-June, 2011. There was an exposure period of four months for the Phase 4 Consultation Paper—comment period ended late-April 2012.
- A2. There is a six-month exposure period for Phase 2 and Phase 3 EDs—comment period ended late April 2013.
- A3. A four month exposure period is projected for the Phase 4 ED—comment period ending in mid-August 2013.
- A4. The Phase 1 Chapters were approved in December 2012 and published in January 2013.
- A5. An ED, *The Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)*, was made available as a Staff draft with the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers in December 2010. It was approved in March 2011 as an IPSASB document and issued in April 2011 with a consultation expiry date of August 31, 2011. The IPSASB reviewed responses in March 2012 and decided to further develop the text of *Key Characteristics* with a view to its inclusion in the Framework as an Introduction or Preface. At the September 2012 meeting the IPSASB directed that *Key Characteristics* be updated in the form of a preface and brought back to the December 2012 meeting, along with the Phase 1 final chapters with a view to incorporation in the Framework. At the December 2012 meeting the IPSASB confirmed that such a Preface should be included in the Framework. At the March 2013 meeting it was decided to defer finalization of the Preface until the Conceptual Framework has been completed, or substantially completed, so that linkages between the characteristics identified in the Preface and concepts can be made more explicit. A further version was circulated to members in April 2013 with a view to an advanced draft being made available on the website as a staff document.
- A6. The finalization of Phases 2, 3 and 4 will include a check for consistency with the Introduction, Preface and Phase 1 chapters.
- A7. There is no current presumption that an integrated (umbrella) ED of the proposed Conceptual Framework will be issued.
- A8. Projection is to issue the finalized Framework in first half of 2014.