

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 16–19, 2013

Agenda Item 4A

For:

☐ Approval

☒ Discussion

☐ Information

Conceptual Framework: Responses to Exposure Draft, *Elements and Recognition in Financial Statements and Directions for Development of Draft Chapter*

Objective(s) of Agenda Item

1. The objectives of the session are to:

- (a) Consider whether *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), is to identify deferred inflows and deferred outflows as separate elements of the Statement of Financial Position;
- (b) Continue review of issues that arise from the analysis of responses to the Conceptual Framework Exposure Draft (CF–ED2), *Elements and Recognition in Financial Statements*; and
- (b) Provide directions to staff for the development of a first draft of a chapter(s) of the Conceptual Framework dealing with elements and recognition where appropriate.

Material(s) Presented

Agenda Item 4A.1	Issues Paper – Financial Performance, Financial Position, Deferred Inflows and Deferred Outflows
Agenda Item 4A.2	Issues Paper – Assets, Liabilities, Revenues, Expenses, Ownership Contributions and Ownership Distributions
Agenda Item 4A.3	Marked-up working draft #1 of a potential chapter – first draft, not complete
Agenda Item 4A.4	Extract of draft minutes of IPSASB meeting June 2013.

PREVIOUS

June 2013 IPSASB Agenda Materials

June 2013- Item 2A.3	Analysis of responses to CF–ED2 by region, function, and language
June 2013- Item 2A.2	List of respondents and collation and summary of respondents' comments
June 2013- Item 2A.4	Copy of responses to CF–ED2

CONCEPTUAL FRAMEWORK: ISSUES PAPER ON RESPONSES TO CF-ED2

Financial Performance, Financial Position, Deferred Inflows and Deferred Outflows

Background

1. Conceptual Framework Exposure Draft 2 (CF-ED2), *Elements and Recognition*, was issued in early November 2012 with a consultation period until April 30, 2013. 40 responses were received. These responses have been posted on the IPSASB section of the IFAC website. A list of respondents and a collation and summary of their responses was included in the agenda materials of the June 2013 IPSASB meeting.
2. At the June 2013 meeting, the IPSASB carried out a preliminary review of the responses and staff collation and analysis of issues raised therein. The IPSASB made initial decisions about a number of matters regarding the definitions of assets, liabilities, ownership contributions and ownership distributions. (See agenda Paper 4A.4 Extract of June 2013 minutes which identifies key decisions made at the June 2013 meeting.)
3. The proposal to identify deferred inflows and deferred outflows as elements of the statement of financial position and exclude them from the definition of revenue and expenses was the most controversial aspect of CF-ED2. The majority of respondents did not support defining deferred inflows and deferred outflows as elements. However, many respondents acknowledged the issue that the introduction of these elements was intended to respond to, and expressed a range of views on approaches to dealing with flows that contain timing and other restrictions.
4. The IPSASB directed that at this (September 2013) meeting it would (a) consider further the meaning of financial performance and financial position for public sector reporting entities that is to be reflected in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) and whether deferred inflows and deferred outflows should be identified as elements; and (b) continue its review of issues raised in responses to CF-ED2.
5. Consideration of financial performance and financial position and identification of deferred inflows and outflows as elements is proposed as the initial focus of discussion at this meeting. These matters are addressed below in this Agenda Paper. Agenda Paper 4A.2 deals with issues raised by respondents in respect of the other elements.

Financial Performance and Financial Position

The development process and context

6. Some respondents to CF-ED2 expressed concern with the observation 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*” (paragraph 4.7), noting that consideration of a number of factors are central to any assessment of financial performance. For example:

“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.” (Respondent 016)

7. As the IPSASB considers the representation of financial performance and financial position that CF–ED2 proposes be reported by financial statements, it is appropriate to reflect on the process for development of this component of the Conceptual Framework and place the financial statements in context, as components of general purpose financial reports (GPFRs). Following some introductory comments about process and context, a number of simple examples are presented to illustrate the operation of the elements identified in CF–ED2 and the Alternative Views in different circumstances, and the measures of financial performance and financial position they produce. It is intended that these illustrations will form the background to Member’s discussion. Views of the Task Based Group (TBG) and staff on some possible refinements to the CF–ED2 approach that might be considered and proposals for strengthening the message of CF–ED2 are then identified for Members’ consideration.
8. In developing Chapters 1-4 of its Conceptual Framework and the Consultation Paper *Conceptual Framework For General Purpose Financial Reporting By Public Sector Entities: Elements and Recognition in Financial Statements* (the Elements Consultation Paper) and CF–ED2, the IPSASB undertook extensive analysis of, and drew from, the literature of standard setters and other authoritative organizations and commentators dealing with financial reporting by public sector entities. As part of that process the meaning of financial position and financial performance in the public sector, the identity and elements of the financial statements that should present that information to users were considered. The IPSASB also identified and considered financial reporting practices of public sector entities in a number of jurisdictions around the world and sought input from constituents through the exposure process.
9. Any analysis of the meaning of financial performance and financial position for public sector entities to be reflected in this chapter of the Conceptual Framework will be conditioned and informed by the positions established and/or approaches considered by the IPSASB in Chapters 1-4 of the Conceptual Framework and the Elements Consultation Paper. Responses to CF–ED2 also include substantive analysis of, and provide valuable input on, respondents’ views of the meaning of financial performance and financial position for public sector entities, and the extent to which the proposals in CF–ED2 fully realize their, sometimes quite different, views.
10. As input to discussion at this meeting, key aspects of each of these components of the IPSASB’s due process are noted below.

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities - Chapters 1-4

11. The IPSASB issued Chapters 1-4 of its Conceptual Framework in January 2013. Those chapters establish the IPSASB’s view of such matters as the users and objectives of financial reporting by public sector entities, qualitative characteristics of information included in GPFRs and the characteristics of public sector reporting entities. It also explores the information needs of users and establishes the broad notions of financial performance and financial position that are to be reported in GPFRs. Subsequent phases of the Framework have been developed consistent with the parameters established by those first chapters.
12. Chapter 2 of the Conceptual Framework explains that for accountability and decision-making purposes, users will need information that supports the assessments of the performance of the entity in meeting its service delivery and other operating and financial objectives, managing the

resources it is responsible for, and complying with relevant budgetary and other authority regulating the raising and use of resources. Users will also need information about the liquidity and solvency of the entity, the sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period. It explains that information about financial position, financial performance and cash flows presented in financial statements:

- (a) Will enable users to identify the resources of the entity and claims to those resources at the reporting date, and changes in them during the reporting period.
 - (b) Will inform assessments of matters such as whether:
 - (i) The entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives, and
 - (ii) Operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.
13. Chapter 2 also explains that the financial performance of most public sector entities will not be fully or adequately reflected in any measure of financial results presented in financial statements, and will need to be assessed in the context of, for example, the achievement of service delivery objectives, compliance with approved budgets, and prospective financial information. Such information may be presented in notes or communicated by separate reports. Therefore, the financial statements are only one component of GPFRs, and the measures of financial performance and position reflected in them will need to be assessed in a broader context. (Key extracts of Chapter 2 of the Conceptual Framework dealing with reporting information about financial position and financial performance are included as Attachment 1 of this paper.)
14. These then are the broad parameters within which the information delivered by financial statements and the elements which form the basis of those statements will need to be assessed.

The Elements - The Consultation Paper and the Exposure Draft

15. The Elements Phase of the Conceptual Framework focusses more sharply on the concepts of financial performance and financial position that are to be reflected in financial statements included in GPFRs, and the definition of the elements that represent the economic data that delivers those notions. The elements and the financial statements constructed around them are not intended to reflect or capture the "full story" in respect of financial performance and financial position – only that part that can be presented by financial statements.
16. The Elements Consultation Paper identifies common agreement that assets, liabilities, revenues and expenses are elements of financial statements, and that these elements provide input to any assessments of financial performance and financial position. It also identified that there are two possible approaches to reporting financial performance in financial statements and outlines benefits of each approach. Those approaches measure financial performance as either:
- (a) The net result of all changes in the entity's resources and obligations during the period. The advantages of this approach include that financial performance reflects changes in resources and obligations during that period and identifies changes in the net resources available to support provision of services in the future. (Under this approach, deferred inflows and deferred outflows would not give rise to assets or liabilities or be recognised as separate elements in the statement of financial position.); or

- (b) The result of the revenue inflows and expense outflows more closely associated with the operations of the current period. The advantages of this approach include that financial performance is determined by flows of revenues and expenses that relate to the activities of the period. This is a key indicator of financial performance and inter-period equity, responds to the importance of budgets in the accountability cycle of public sector entities, and reduces volatility in financial reporting. (Under this approach, items identified as deferred inflows and deferred outflows would not be included in revenues or expenses but would be identified as separate elements in the statement of financial position).
17. The Elements Consultation Paper explains that identifying deferred inflows and deferred outflows as elements of financial statements is central to ensuring that only flows of the reporting period are accounted for as revenues and expenses. It also explains that deferred inflows and deferred outflows are defined broadly in terms of the increase in net assets that is applicable to future reporting periods (deferred inflow) and the consumption of resources applicable to future reporting periods (deferred outflow). [Staff note: The TBG is of the view that the terms “deferred obligations” and “deferred resources” (rather than deferred inflows and outflows) better captures the underlying nature of these proposed elements and distances them from the perception noted by a number of respondents that that they are simply accounting constructs.] (Key extracts of Chapter 2 of the Conceptual Framework dealing with reporting information about financial position and financial performance are included in Attachment 2 of this paper.
18. CF–ED2 proposes that the concept of financial performance to be adopted by the Conceptual Framework reflect the revenue inflows and expense outflows associated with the reporting period. To enhance consistency and transparency in financial reporting of the treatment of deferred items, CF–ED2:
- (a) Defines assets and liabilities in terms that reflect their underlying economic characteristics – in broad terms, as the resources of the entity that provide service potential or economic benefits (assets) and present obligations that arise from past events and require an outflow of resources from the entity (liabilities); and
 - (b) Identifies deferred inflows and deferred outflows as separate elements, and excludes changes in net assets that arise from inflows that relate to a future period (deferred inflow or deferred outflow) from the definition of revenue or expenses.

To overcome concerns that these elements might be used inappropriately, CF–ED2 defines deferred inflows and deferred outflows more narrowly than in the Elements Consultation Paper, restricting them to changes in net assets that arise from non-exchange transactions which specify the period in which the transferred resources are to be used.

ED 2 – Financial Performance and Financial Position

5.1 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.

5.2 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.

BC 40 ... a highly important characteristic of the public sector is the prevalence of non-exchange transactions. Such transactions include (a) involuntary transfers of resources, notably taxation, and grants, which may be received prior to the period in which they are intended to finance the provision of goods and services, and (b) transfers of resources with timing restrictions or expectations and no performance or return obligations. 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.

BC 44 The IPSASB acknowledged reservations about defining deferred inflows and deferred outflows (for example, that such elements might be used inappropriately or that usage of such elements would be determined at the standards level). It has been suggested that broad definitions of deferred outflows could be used to spread certain costs inappropriately (for example, redundancy costs) over several reporting periods, based on an assertion that these costs will produce savings and therefore a reduction of outflows of resources over a number of subsequent reporting periods.

BC 45 Such concerns led the IPSASB to narrow the application of deferred inflows and outflows to public sector circumstances. Deferred inflows and deferred outflows are therefore restricted to certain non-exchange transactions, because they do not meet the definition of revenue or expenses as they relate to a specified future reporting period, and they do not give rise to assets, liabilities, ownership contributions or ownership distributions. Based on this approach, a property tax levied and collected in one period that is required by law to be spent in a specified future period would be reported as a deferred inflow. 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. Exchange transactions give rise to revenue, expenses, assets, liabilities, ownership contributions or ownership distributions in the period of the exchange and the IPSASB considered that it is therefore not appropriate to include these transactions in the definitions of deferred inflows or deferred outflows.

Responses to CF–ED 2

19. The analysis of responses presented at the June 2013 meeting identified that while many respondents supported (a) the representations of financial performance and financial position that CF–ED2 proposed be reflected in the financial statements and (b) the identification of deferred inflows and deferred outflows as elements of the SOF position, a majority of responses did not. The

collation of responses and staff papers presented at the June 2013 meeting outlined the reasons respondents identified for their support or opposition to the proposals in CF–ED2.

20. Underpinning the views of those that support the CF–ED2 approach is agreement with the IPSASB’s view (paragraph BC 2) that a primary focus on reporting information about the extent to which the costs of services provided during the period were funded through revenues generated for, or available for use during, that period, is necessary for the discharge of accountability and will provide information useful for decision making purposes – and identification of deferred inflows and deferred outflows as separate elements will ensure transparency and consistency in the presentation of such information (Respondents 001, 004, 006, 010, 012, 014, 015, 017, 019, 028, 029, 032, 033, 034 035). However, some respondents that supported the approach reflected in CF–ED2 also expressed concern about some aspects of the definition of deferred inflows and outflows and the explanation of their consequences. For example, that:

- (a) the narrowing of the definitions of deferred inflows and deferred outflows to only deal with:
 - (i) non-exchange transactions where a specified future period is identified undermines the concept of financial performance intended, because time-stipulated transactions can equally arise through exchange contracts; and
 - (ii) transactions where a specified future period is identified also undermines the concept of financial performance intended because it excludes a stipulation that specifies the purpose for which any transferred resources are to be used but not the specific period of their use—this reduces the concept to a matter of documentary form rather than economic substance (Respondents 006, 012, 014, 015)

Similar concerns were also raised by some respondents that did not support the identification of deferred inflows and outflows as elements (Respondents 011, 021, 039); and
- (b) Additional clarity and/or guidance is needed on such matters as the type of transactions that might give rise to deferred flows and their recognition and measurement (Respondents 033, 035) and refinement to some aspect of the definitions of deferred inflow and outflow is necessary to better reflect the underlying substance. (Respondent 014).

21. Underpinning the reservations of those that did not support the identification of deferred inflows and deferred outflows as separate elements are concerns that the measure of financial performance and financial position reported in the statements of financial position and performance will not be well understood and may not be appropriate – with some noting that the deferred items should not be excluded from the definitions of revenue and expense and some conveying a sense that the definitions of assets and liabilities should work to encompass the deferred items. In broad terms the concerns can be categorized as:

- (a) The approach introduces elements that do not represent economic resources and obligations and redefines the existing global accounting framework widely adopted in the private and public sectors, including by International Financial Reporting Standards (IFRS) and Government Finance Statistics (Respondents 005, 007, 008, 009, 013, 022, 026, 030, 031, 037, 039, 040).
- (b) The introduction of deferred inflows and deferred outflows increases the complexity of the financial statements with the potential to be confusing to users in jurisdictions where they are

not well understood, and/or allow some manipulation to such an extent as to outweigh the potential benefits. (Respondents 002, 003, 011, 016, 11, 18, 20, 21, 23, 24, 36, 37, 38)

- (c) The approach reflects too narrow a view of the primary measure of financial performance for public sector entities, and the definitions of deferred inflows and outflows are not based on broad principles that sit comfortably in a Conceptual Framework (Respondents 007, 008, 022, 036).
22. Some respondents that do not support identification of deferred inflows and outflows as elements in the Conceptual Framework acknowledge that providing information about the extent to which costs of the period were recovered from resources raised for use in the period is also an useful indicator of the financial performance of many public sector entities, particularly those that have a direct service mandate (Respondents 011, 038). A number of respondents also supported the Alternative Views expressed by Jeanine Poggiolini and Prof. Mariano D'Amore, with some suggesting 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. (Respondents 008, 014, 026, 029, 031, 036, 038, 039)

Assessment - Financial Performance and Financial Position – CF–ED2

23. The analysis of responses to CF–ED2 indicates that there is an acknowledgement that information about the revenue inflows and expense outflows related to the operations of the current period is an important measure of financial performance for public sector entities. However, respondents are concerned that the definition of deferred inflows and deferred outflows as separate elements as proposed in CF–ED2 does not result in measures of financial performance and financial position that respond adequately to the information needs of users and objectives of financial reporting as identified in the Conceptual Framework. Therefore, key issues for the IPSASB to address as it considers and analyses the measures of financial performance and financial position presented consistent with CF–ED2 are whether:
- (a) The recognition of deferred inflows and deferred outflows as elements in the statement of financial position, and their exclusion from revenues and expenses recognized in the statement of financial performance, is the appropriate mechanism to communicate measures of :
 - (i) Period financial performance (flows): The revenues and expenses that result from the activities of the reporting period;
 - (ii) Period end stocks: The resources available to the entity for providing services in the future; and
 - (b) The principles in CF–ED2 deliver the intended messages in all circumstances about financial performance and financial position, and are a good “fit” with the objectives of financial reporting and QCs reflected in the Conceptual Framework.
24. To support the IPSASB’s discussion of the concept of financial performance and financial position to be reflected in the Conceptual Framework, a number of examples have been developed to illustrate application of the principles reflected in CF–ED2 in different circumstances. A number of respondents expressed support for one or other of the Alternative Views (AVs) of Mariano D’Amore and Jeanine Poggiolini, therefore the examples have also been applied to illustrate the AVs.

25. The examples are simplistic and narrowly focused. However, the TBG and staff are of the view that they are an useful mechanism to focus on measures of financial performance and financial position reported in the financial statements consistent with CF–ED2 and the AVs, and to explore potential consequences of differences in the specification of the terms of resource inflows and outflows subject to time stipulations on those measures. They are also useful to highlight some areas where explanation could be refined to clarify and strengthen the messages intended under the CF–ED2 approach - if that approach is retained following discussion in September 2013. (Staff wishes to express thanks to the TBG, Prof D'Amore and Ms. Poggiolini for their review of, and valuable input to, the formulation of the examples. However, errors and shortcomings in these examples are solely the responsibility of staff.)
26. The examples are identified below. Sections of this paper following the examples note matters that the TBG and staff consider could usefully be considered as the IPSASB moves to a decision on whether deferrals are to be identified as separate elements.

Final Performance and Financial Position for Public Sector Entities

Application of the principles identified in CF-ED2. Some simple examples.

Key Paragraphs from CF-ED2 - IPSASB MAJORITY VIEW

1.5: "Net assets is the aggregate of an entity's assets less liabilities at the reporting date ..."

1.6: "Net financial position is the aggregate of an entity's assets and deferred outflows less an entity's liabilities and deferred inflows at the reporting date..."

4.7: "... The difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance."

5.1 "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."

5.2 "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."

5.3 "A deferred inflow is to be used by the entity in one or more specified future reporting periods. An example of a deferred inflow is a multi-year grant transferred to the entity that does not meet the definition of a liability, but includes a stipulation by the transferor that it is to be used to finance the general activities of the entity over one or more specified future reporting periods."

5.5 "When the specified future reporting period occurs, the flows are no longer deferred. A decrease in a deferred inflow would be recognized as revenue. A decrease in a deferred outflow would be recognized as an expense."

BC 47: "A positive net financial position represents the net resources available for providing goods or services in future periods. A 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."

Alternative View 1 – Prof Mariano D’Amore

AV 1 "This AV does not question the rationale for recognizing deferred inflows and deferred outflows as elements....Rather it debates the treatment of deferred inflows and deferred outflows and their related increases and decreases."

Financial Performance:

AV 5 "...change in net assets and surplus/deficit are both relevant performance indicators..."

Financial Position

AV 6 "...net financial position does not substitute net assets nor is it the primary indicator for the assessment of the net resources available to the entity for the provision of services in the future. Disregarding ownership contributions/distributions, net financial position may however be understood as an accumulated surplus or deficit which gives information about the past capacity of an entity to finance the services it has provided through related revenues."

Alternative View 2 - Jeanine Poggiolini

AV 8 "...disagrees with the view that deferred inflows and deferred outflows should be identified and recognized as separate elements. Instead, these flows should be included in the definitions of revenues and expenses."

Financial performance and Financial Position.:

AV 9 "...when an entity demonstrates control over a resource, and the inflow is not an ownership contribution and no related obligation exists, then revenue should be recognized. Where an entity controls the underlying resource and has no related obligation, it has the ability to direct the nature and manner of use of the resulting economic benefits or service potential....The opposite is true for expenses and deferred outflows. If an entity has an outflow of resources over which it has no further control, through, for example, the existence of rights, then an expense should be recognized. ...this position more appropriately demonstrates the resources for which the entity is accountable."

AV 11 "...in certain instances, this approach may result in large surpluses or deficits being reflected in the statement of financial performance. This could be addressed through developing appropriate presentation and disclosure requirements at standards level which would provide relevant information to users of the financial statements..."

Example 1 - Receipt of time stipulated resources

A new local government receives from a National Government in period X, a grant of 100K for use over the period X1, X2, X3. (The example could be a local government that raises 100K from rate payers on the basis that amounts raised are specified for use in years X1, X2, X3). The grant is to be used to meet operating expenses during the period(s) specified. The grant monies are used evenly over each of the three year period.

Figure 1 CF-ED2 – The Recipient: Time stipulated resources used evenly over period

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-0-	33	33	34
Expense	-0-	33	33	34
Surplus (deficit)	-0-	-0-	-0-	-0-
Year-end Financial Position:				
Asset	100	67	34	0
Liability	-0-	-0-	-0-	-0-
Deferred Inflows	<u>100</u>	<u>67</u>	<u>34</u>	<u>0</u>
Net assets (net liabilities)	100	67	34	-0-
Net Financial Position	-0-	-0-	-0-	-0-

Figure 2 Alternate View 1 – The Recipient: Time stipulated resources used evenly over period

Statement of Financial Performance:	X	X1	X2	X3
Revenue	100-	-0-	-0-	-0-
Expense	<u>-0-</u>	<u>33</u>	<u>33</u>	<u>34</u>
Change in Net assets	100	(33)	(33)	(34)
Increase in Deferred Inflow	100	-0-	-0-	-0-
Decrease In Deferred Inflow	-0-	33	33	34
Surplus (deficit)	-0-	-0-	-0-	-0-
Statement of Financial Position:				
Asset	100	67	34	-0-
Liability	-0-	-0-	-0-	-0-
Deferred Inflow	<u>100</u>	<u>67</u>	<u>34</u>	<u>-0-</u>
Net assets (net liabilities)	100	67	34	-0-
Net Financial Position	-0-	-0-	-0-	-0-

Figure 3 Alternate View 2 – The Recipient: Time stipulated resources used evenly over period

Statement of Financial Performance:	X	X1	X2	X3
Revenue*	100	-0-	-0-	-0-
Expense	<u>-0-</u>	<u>33</u>	<u>33</u>	<u>34</u>
Surplus (deficit)	100	(33)	(33)	(34)
Statement of Financial Position:				
Asset	100	67	34	-0-
Liability	-0-	-0-	-0-	-0-
Net assets (net liabilities)	100	67	34	-0-

*Note disclosure could be used to identify the amount of revenue subject to any stipulations re the timing of use. Alternatively, revenue subject to time stipulation and revenue not subject to such stipulations could be identified on the face of the SOF performance. Other presentation formats or note explanation could also be adopted and may be specified at standards level

Example 1: Receipt of time stipulated resources

Figure 1 CF–ED2: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

The statement of financial performance reports that the local government has generated no revenues in period X and revenues and expenses of 33 in periods X1 and X2 and 34 in X3. It reports a surplus (deficit) of 0 in each period.

The surplus (deficit) *“is the primary indicator of financial performance.”* (paragraph 4.7)

Financial Position at year end

The statement of financial position reports net assets of 100 in X, 67 in X1, 34 in X2 and 0 in X3. It also reports a net financial position of 0 each period which *“represents the net resources available for providing goods or services in future years”* (Paragraph BC 47).

The financial statements report that the local government's net financial position has not changed over these 4 years.

Figure 2 Alternate View 1: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

In period X, the statement of financial performance reports the local government has generated revenues of 100 and incurred no expenses. It reports an increase in net assets of 100 and a surplus/deficit of zero. The statement of financial performance reports a decrease in net assets of 33 in periods X1 and X2, and 34 in X3. It reports a surplus/deficit of 0 in each period.

The change in net assets and the surplus are both relevant performance indicators. (Paragraph AV5)

Financial Position at year end

For period ends X, X1, X2 and X3 the statement of financial position reports the local government has net assets of 100, 67, 34 and 0 respectively. The statement of financial position reports the net financial position of the local government is 0 in each period.

Net financial position is not identified as the primary indicator of the net resources available to the local government for the provision of services in the future X, and net assets retains a role in the assessment of resources available for provision of services in the future. (Paragraph AV6)

Figure 3 Alternate View 2: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

In period X the statement of financial performance reports the local government has generated revenue of 100 and incurred no expenses. It reports a surplus of 100 for the period.

The statement of financial performance reports a deficit of 33 for periods X1 and X2 and 34 in X3.

The surplus (deficit) is not identified as the primary measure of financial performance. Presentation and disclosure requirements directed at providing relevant information to users about the surplus or deficit reported could be established at standards level (paragraph AV11).

Financial Position at year end

The statement of financial position reports net assets of 100 in X, 67 in X1, 34 in X2 and 0 in X3.

The statement of financial position does not include a separate amount described as net financial position.

Example 2 - Activity does not occur, or time period not specified

2(a) Activity does not occur in specified time period

A local government receives a grant of 100K in year X for use in year X1 to support a child care program that it is anticipated will be initiated in X1. There is no return obligation associated with the grant. The child care program does not commence in period X1.

Figure 4 CF–ED2 – The Recipient: Activity does not occur in the specified period

Statement of Financial Performance:	X	X1
Revenue	-0-	100
Expense	-0-	-0-
Surplus (Deficit)	-0-	100
Year-end Financial Position:		
Asset	100	100
Liability	-0-	-0-
Deferred Inflows	<u>100</u>	<u>-0-</u>
Net assets (net liabilities)	100	100
Net Financial Position	-0-	100

Figure 5 Alternate View 1 – The Recipient: Activity does not occur in the specified period

Statement of Financial Performance	X	X1
Revenue	100	-0-
Expense	<u>-0-</u>	<u>-0-</u>
Change in Net assets	100	-0-
Increase in Deferred Inflow	100	-0-
Decrease In Deferred Inflow	<u>-0-</u>	<u>100</u>
Surplus (deficit)	-0-	100
Statement of Financial Position:		
Asset	100	100
Liability	-0-	-0-
Deferred Inflow	<u>100</u>	<u>-0-</u>
Net assets (net liabilities)	100	100
Net Financial Position	-0-	100

Figure 6 Alternate View 2 – The Recipient: Activity does not occur in the specified period

Statement of Financial Performance:	X	X1
Revenue*	100	-0-
Expense	<u>-0-</u>	<u>-0-</u>
Surplus (deficit)	100	-0-
Statement of Financial Position:		
Asset	100	100
Liability	-0-	-0-
Net assets (net liabilities)	100	100

*Note disclosure could be used to identify the amount of revenue subject to any stipulations regarding the timing of use.

Alternatively, revenue subject to time stipulation and revenue not subject to such stipulations could be identified on the face of the SOF performance. Other presentation formats or note explanation could also be adopted and may be specified at standards level

Example 2(a): Activity does not occur in specified time period

Figure 4 - CF-ED2: Financial Performance and Financial Position – Years X, X1,

Financial Performance

The SOF performance reports that the local government generated no revenue during period X, and revenue of 100 in period X1. It incurred expenses of 0 in X and X1. It reports 0 surplus (deficit) in X, a surplus of 100 in X1.

The surplus (deficit) “is the primary indicator of financial performance.” (paragraph 4.7)

Financial position at year end

The statement of financial position reports that the net financial position of the local government is 0 in period X and 100 in X1. Its net assets are 100 in X1 and X2.

A positive net financial position represents the net resources available for providing goods or services in future periods (paragraph BC 47).

Figure 5 – Alternate View 1: Financial Performance and Financial Position – Years X, X1

Financial Performance

The statement of financial performance reports that the local government has generated revenues of 100 and incurred no expenses during period X1. It reports an increase in net assets of 100 and a surplus/deficit of zero.

The statement of financial performance reports 0 revenue and 0 change in net assets in X1. It reports a decrease in deferred inflow and a surplus of 100 in X1.

The change in net assets and the surplus are both relevant performance indicators. (Paragraph AV5)

Financial Position at year end

The statement of financial position reports net assets of 100 in X and X1. It reports that net financial position is 0 in X and 100 in X1.

Net financial position is not identified as the primary indicator of the net resources available to the local government for the provision of services in the future X, and net assets retains a role in the assessment of resources available for provision of services in the future. (Paragraph AV6).

Figure 6 – Alternate View 2: Financial Performance and Financial Position – Years X, X1

Financial Performance

In period X the statement of financial performance reports revenue of 100K, no expenses and a surplus of 100. It reports no revenues and no expenses in X1.

The surplus (deficit) is not identified as the primary measure of financial performance. Presentation and disclosure requirements directed at providing relevant information to users about the surplus or deficit reported could be established at standards level (paragraph AV11).

Financial Position at year end

The statement of financial position reports net assets of 100 in X and X1. .

The statement of financial position does not include a separate amount described as net financial position.

2(b) The time period for usage of the grant is not specified

A local government newly constituted late in period X, receives a grant of 100K from a National Government (or raises 100K from constituents by way of a special levy) late in period X for use in future periods. While not intended for use in period X a specific time period for usage is not identified. It is made clear that the grant (amount raised) is not an annual/recurring grant (or recurring levy). The operating costs of the local government in period X are not material. Its operating costs in X1 are 33K.

Figure 7 CF–ED2 – The Recipient: Period(s) for usage not specified

Statement of Financial Performance:	X	X1
Revenue	100	-0-
Expense	-0-	33
Surplus (deficit)	100	(33)
Year-end Financial Position:		
Asset	100	67
Liability	-0-	-0-
Deferred Inflows	<u>-0-</u>	<u>-0-</u>
Net assets (net liabilities)	100	67
Net Financial Position	100	67

Figure 8 Alternate View 1 – The Recipient: Period(s) for usage not specified

Statement of Financial Performance:	X	X1
Revenue	100	-0-
Expense	<u>-0-</u>	<u>33</u>
Change in Net assets	100	(33)
Increase in Deferred Inflow	-0-	-0-
Decrease In Deferred Inflow	-0-	-0-
Surplus (deficit)	100	(33)
Statement of Financial Position:		
Asset	100	67K
Liability	-0-	-0-
Deferred Inflow	<u>-0-</u>	<u>-0-</u>
Net assets (net liabilities)	100	67
Net Financial Position	100	67

Figure 9 Alternate View 2 – The Recipient: Period(s) for usage not specified

Statement of Financial Performance:	X	X1
Revenue*	100	-0-
Expense	<u>-0-</u>	<u>33</u>
Surplus (deficit)	100	(33)
Statement of Financial Position:		
Asset	100	67
Liability	-0-	-0-
Net assets (net liabilities)	100	67

*Note disclosure could be used to identify the amount of revenue subject to any stipulations re the purpose of use. Alternatively, revenue subject to stipulation (time or usage) and revenue not subject to such stipulations could be identified on the face of the SOF performance. Other presentation formats or note explanation could also be adopted and may be specified at standards level.

Example 2(b): The time period for usage of the grant is not specified

Figure 7 CF–ED2: Financial Performance and Financial Position – Years X, X1

Financial performance:

The statement of financial performance reports that the local government generated revenue and a surplus of 100 during period X. It reports that the local government incurred expenses and generated a deficit of 33 in X1.

The surplus (deficit) “is the primary indicator of financial performance.” (paragraph 4.7)

Financial position:

The statement of financial position reports that the net financial position of the local government is 100 at end of period X, and 67 at end of period X1. The same amounts are reported for net assets.

Figure 8 AV 1 Financial Performance and Financial Position – Years X, X1

Financial Performance

The statement of financial performance reports the local government has generated revenues of 100 in X. It reports a change in net assets of 100 and a surplus of 100 in X.

The statement of financial performance reports a decrease in net assets and a deficit of 33 in X1.

The change in net assets and surplus (deficit) are both relevant performance indicators. (Paragraph AV5)

Financial Position at year end

For period ends X, and X1 the statement of financial position reports the same amounts for net assets and net financial position: 100 in X and 67 in X1.

Net financial position is not identified as the primary indicator of the net resources available to the local government for the provision of services in the future X, and net assets retains a role in the assessment of resources available for provision of services in the future. (Paragraph AV6)

Figure 9 Alternate View 2 - Financial Performance and Financial Position – Years X, X1

Financial Performance

In period X the SOF performance reports revenue and a surplus of 100K. It reports a deficit of 33 in period X1.

The surplus (deficit) is not identified as the primary measure of financial performance. Presentation and disclosure requirements directed at providing relevant information to users about the surplus or deficit reported could be established at standards level (paragraph AV11).

Financial Position at year end

For period ends X and X1 the statement of financial position reports net assets of 100 and 67.

The statement of financial position does not include a separate amount described as net financial position.

Example 3 – Grant of Non-monetary assets received for use over a specified period

Rather than provide a local government with a grant of 100K to acquire ambulance services over a three year period, a national government or multi-national donor agency provides the local government with an ambulance subject to a stipulation that it is to be used over the next 3 years. No penalties are specified if this stipulation is not satisfied. The ambulance has an observable price in an active market of 100K.

While not dealt with specifically, the principle underlying the concepts of financial position and performance established by CF-ED2 is that the recipient entity recognizes an asset and deferred inflow when it gains control of the service potential represented by the asset (ambulance). The recipient then recognizes revenue, a decrease in deferred inflow and an expense in each of the periods over which the time stipulation applies to the asset (ambulance). Whether this revenue gives rise to an increase in surplus or not will depend on the period and pattern of consumption of the service potential of the ambulance.

The example illustrates the impact of the grant on surplus (deficit) and net financial position of the local government over the three year time stipulated period. It reflects an even pattern of revenue recognition and consumption of service potential in respect of the grant.

Figure 10 CF–ED2 – The Recipient: Non-monetary grant for use over specified period

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-0-	33	33	34
Expense	-0-	33	33	34
Surplus (deficit)	-0-	-0-	-0-	-0-
Year-end Financial Position:				
Asset	100	67	34	-0-
Liability	-0-	-0-	-0-	-0-
Deferred Inflows	<u>100</u>	<u>67</u>	<u>34</u>	<u>-0-</u>
Net assets (net liabilities)	100	67	34	-0-
Net Financial Position	-0-	-0-	-0-	-0-

Figure 11 Alternate View 1 – The Recipient: Non-monetary grant for use over specified period

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-100-	-0-	-0-	-0-
Expense	<u>-0-</u>	<u>33</u>	<u>33</u>	<u>34</u>
Change in Net assets	100	(33)	(33)	(34)
Increase in Deferred Inflow	100	-0-	-0-	-0-
Decrease In Deferred Inflow	-0-	33	33	34
Surplus (deficit)	-0-	-0-	-0-	-0-
Statement of Financial Position:				
Asset	100	67	34	-0-
Liability	-0-	-0-	-0-	-0-
Deferred Inflow	<u>100</u>	<u>67</u>	<u>34</u>	<u>-0-</u>
Net assets (net liabilities)	100	67	34	-0-
Net Financial Position	-0-	-0-	-0-	-0-

Figure 12 Alternate View 2 – The Recipient: Non-monetary grant for use over specified period

Statement of Financial Performance:	X	X1	X2	X3
Revenue*	100	-0-	-0-	-0-
Expense	<u>-0-</u>	<u>33</u>	<u>33</u>	<u>34</u>
Surplus (deficit)	100	(33)	(33)	(34)
Statement of Financial Position:				
Asset	100	67	34	-0-
Liability	-0-	-0-	-0-	-0-
Net assets (net liabilities)	100	67	34	-0-

*Note disclosure could be used to identify the amount of revenue subject to time stipulations and whether from monetary or non-monetary grant. Other presentation formats or note explanation could also be adopted and may be specified at standards level.

Example 3: Non-monetary grant for use over specified period

Figure 10 CF–ED2: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

The statement of financial performance reports that the local government has generated no revenues in period X arising from the grant. It reports that, as a result of grant, the local government has generated revenues of 33 in periods X1 and X2 and 34 in X3 and recognized expenses of the same amount each year reflecting consumption of service potential of the grant asset. Consequently, the grant has contributed 0 to the surplus (deficit) in each year. The surplus (deficit) “is the primary indicator of financial performance.” (paragraph BC 4.7)

Financial Position at year end

For period ends X, X1, X2 and X3 the statement of financial position reports net assets in respect of the grant of 100, 67, 34 and 0. It reports the grant has had no impact on the net financial position of the local government in each of those years. Net financial position “represents the net resources available for providing goods or services in future periods”. (paragraph BC 47)

Figure 11 Alternate View 1: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

The statement of financial performance reports the local government has generated revenues of 100 as a result of the grant in period X. It reports an increase in net assets of 100 and a surplus/deficit of zero arising as a result of the grant.

The statement of financial performance reports a decrease in net assets of 33 in periods X1 and X2, and 34 in X3 as the service potential of the grant asset is consumed. It reports the grant has had no impact on surplus/deficit in each period.

The change in net assets and the surplus are both relevant performance indicators. (Paragraph AV5)

Financial Position at year end

For period ends X, X1, X2 and X3 the statement of financial position reports net assets in respect of the grant of 100, 67, 34 and 0. It reports the grant has had no impact on net financial position in each period.

Net financial position is not identified as the primary indicator of the net resources available for the provision of services in the future, and net assets retains a role in the assessment of resources available for provision of services in the future. (Paragraph AV6)

Figure 12 – Alternate View 2: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

In period X, the statement of financial performance reports revenues of 100K and a surplus of 100 arising from the grant. It reports a deficit of 33 in X1 and X2 and 34 in X3 as the service potential of the grant asset is consumed.

Presentation and disclosure requirements to provide relevant information about surplus/deficit could be established at standards level (paragraph AV11).

Financial Position at year end

For period ends X, X1, X2, X3 the statement of financial position reports net assets of 100, 67, 34 and 0 in respect of the grant. The statement of financial position does not include a separate amount described as net financial position.

Example 4 - Transfer of time stipulated resources

In year X, a local government authorises a multi-year grant of 100K to another non-profit entity for use in years X1, X2, X3 – the terms of the grant do not include a return obligation. The following illustrates the impact of this grant on the surplus (deficit) and net financial position of the local government (the grantor). To isolate that impact these examples reflect that the local government has transferred the grant resources to the recipient and has no other assets after the transfer – this is unrealistic but it allows us to focus on the treatment of the grant consistent with CF–ED2 and the Alternative Views. It illustrates a circumstance in which the grant monies are transferred to the recipient in year X, and the recipient uses the grant monies evenly over the period of the grant.

In other circumstances, the local government (the grantor) may recognize a liability and a deferred outflow in respect of an approved multi-year grant that contains only a stipulation that specifies the time periods of use of the grant , and for which the local government has no realistic alternative to avoid an outflow of resources. As the grant monies are released, an expense and a decrease in a deferred outflow would be recognized. Revenue and expense, surplus/deficit and net financial position reported in the financial statements of the local government would then be influenced by the timing of release of the funds to the recipient.

Figure 13 CF–ED2 – The Transferor: Transfer of time stipulated resources

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-0-	-0-	-0-	-0-
Expense	-0-	33	33	34
Surplus (deficit)	-0-	(33)	(33)	(34)
Year-end Financial Position:				
Asset	-0-	-0-	-0-	0
Liability	-0-	-0-	-0-	-0-
Deferred outflow	<u>100</u>	<u>67</u>	<u>34</u>	<u>-0-</u>
Net assets (net liabilities)	-0-	-0-	-0-	-0-
Net Financial Position	100	67	34	-0-

Figure 14 Alternate View 1 – The Transferor: Transfer of time stipulated resources

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-0-	-0-	-0-	-0-
Expense	<u>100</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Change in Net Assets	(100)	-0-	-0-	-0-
Increase in Deferred Outflow	100	-0-	-0-	-0-
Decrease in Deferred Outflow	-0-	(33)	(33)	(34)
Surplus (deficit)	-0-	(33)	(33)	(34)
Statement of Financial Position:				
Asset	-0-	-0-	-0-	0
Liability	-0-	-0-	-0-	-0-
Deferred outflow	<u>100</u>	<u>67</u>	<u>34</u>	<u>-0-</u>
Net assets (net liabilities)	-0-	-0-	-0-	-0-
Net Financial Position	100	67	34	-0-

Figure 15 Alternate View 2 – The Transferor: Transfer of time stipulated resources

Statement of Financial Performance:	X	X1	X2	X3
Revenue	-0-	-0-	-0-	-0-
Expense*	<u>100</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Surplus (deficit)	(100)	-0-	-0-	-0-
Statement of Financial Position:				
Asset	-0-	-0-	-0-	0
Liability	-0-	-0-	-0-	-0-
Net assets (net liabilities)	-0-	-0-	-0-	-0-
Net Financial Position	-0-	-0-	-0-	-0-

*Note disclosure could be used to identify the amount of expenses that are transfers to third parties for use in specified future periods. Other presentation formats, including presentation as a separate class of expenses on the face of the statement of financial performance, or note explanation could also be adopted and may be specified at standards level.

Example 4: Transfer of time stipulated resources

Figure 13 CF–ED2 - Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

The statement of financial performance reports that the local government has incurred no expense during period X as a result of the transfer of the time stipulated grant funds. It reports the local government incurs expenses (and reports a deficit) of 33 in each of years X1, X2 and 34 in X3 in respect of the grant.

The surplus (deficit) “is the primary indicator of financial performance” (paragraph BC 4.7)

Financial Position at year end

The statement of financial position recognizes a deferred outflow of 100 in respect of the transfer of the grant funds in period X. Therefore net assets will have declined by 100 in year X, but net financial position will remain unchanged as a result of the transfer of grant funds. The statement of financial position reports net assets of 0 each period and net financial position of 100 for X1, 67 for X1, 34 for X2 and 0 for X3. Net financial position represents the “net resources available for providing goods or services in future periods” (Paragraph BC 47) as at the end of each of these periods

Figure 14 – Alternate View 1: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

In period X, the statement of financial performance reports expenses of 100, a decrease in net assets of 100 and a surplus/deficit of zero in respect of the grant. It reports a decrease in deferred outflow and a deficit of 33 in periods X1 and X2, and 34 in X3 in respect of the grant.

The change in net assets and the surplus are both relevant performance indicators. (Paragraph AV5)

Financial Position at year end

Net assets have declined by 100 in year X as a result of the transfer of grant monies to the recipient, and a deferred outflow of 100 is recognized. For period ends X, X1, X2 and X3 the statement of financial position reports net assets of 0 in each period and a net financial position of 100 in X, 67 in X1, 34 in X2 and 0 in X3 in respect of the grant.

Net financial position is not viewed as the primary indicator of net resources available to the local government for the provision of goods and services in the future. Net assets retain a role in the assessment of resources available for provision of services in the future. (Paragraph AV6)

Figure 15 Alternate View 2: Financial Performance and Financial Position – Years X, X1, X2, X3

Financial Performance

In period X, the statement of financial performance reports expense of 100 in respect of the transfer and a deficit of 100. In each of periods X1, X2 and X3 it reports expense of 0 and a surplus (deficit) of 0.

The surplus (deficit) is not identified as the primary measure of financial performance. Presentation and disclosure requirements directed at providing relevant information to users about the surplus or deficit reported could be established at standards level (paragraph AV11).

Financial Position at year end

Net assets declined by 100 in year X as a result of the transfer of grant monies to the recipient. For period ends X, X1, X2 and X3 the statement of financial position reports net assets of 0. The statement of financial position does not include a separate amount described as net financial position.

Staff and TBG Views – matters to consider

27. As noted in agenda papers presented at the June 2013 IPSASB meeting, the staff view is 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.*”
28. However, it is clear that many respondents acknowledge that information about the revenue inflows and expense outflows related to the operations of the current period is an important measure of financial performance. While a majority of respondents did not support defining deferred inflows and deferred outflows as elements, a significant number are of the view that identification of deferrals as separate elements is the most transparent approach to present that information in the financial statements.
29. As part of its deliberations on which measure of financial performance is to be presented in the statement of financial performance, the TBG and staff propose that the IPSASB consider whether:
- (a) It is necessary that the Conceptual Framework specify that only one of the two approaches to presenting financial performance identified in the Elements Consultation Paper be adopted (and the identity of the financial statement that is to be used to report it). Alternatively, should the Conceptual Framework acknowledge that both notions of financial performance identified in the Elements Consultation Paper have merit and could usefully be presented in financial statements; and
 - (b) The explanation of the IPSASB’s rationale for the identification of deferrals as separate elements should be strengthened to better reflect their underlying principles. Such an approach may respond to the concerns of some respondents that deferred inflows and outflows are defined too narrowly in CF–ED2.
30. These matters are developed further below.

The identity and contents of the financial statements included in GPFRs

31. The Conceptual Framework allows for financial statements included in GPFRs to evolve over time. For example:
- “Although the number, type, and format of financial statements evolve over time, most financial statements focus on the financial portrayal of past transactions and events that affect financial position at a point in time, and financial performance for a specified period.” (Elements Consultation Paper paragraph 1.6)
32. CF–ED2 explains: “*This Exposure Draft (ED) proposes definitions of elements used in general purpose financial statements (financial statements)*” (paragraph 1.1), and notes that issues of presentation are addressed in Phase 4 of the Framework. Paragraph 1.2 of CF–ED2 specifies that the elements are to be reported in either the statement of financial performance or the statement of financial position.
33. Establishing these two statements as the vehicles that must report all of the elements, in effect, forces the Conceptual Framework to specify that the concept of financial performance that is to be presented in the primary financial statements is only one (and not both) of either:
- (a) The extent to which resources raised for use in the period meet the costs of services provided in the period, or

- (b) The change in resources available to provide services in the future as a result of the activities of the period, other than from ownership contributions and ownership distributions.
34. While note disclosure and other supporting schedules and statements can present alternate measures of financial performance and other information useful in any assessment of the financial performance and position of the entity, the “headline” measure of financial performance is reflected in the primary financial statements.
35. The current suit of financial statements and their content has evolved over time as the IPSASB has developed its reporting “package” to better respond to user needs—it differs from the suite of statements that was in place 10 or so years ago. Specifying in the Conceptual Framework that the statement of financial position and statement of financial performance are the financial statements that will be adopted to report (or bring together) all the elements may limit, or present an obstacle to, the ongoing development of the mechanism for presenting financial information by the IPSASB in the future—including developments in the contents and type of financial statements that might accommodate both these (and/or other) notions of financial performance.
36. As the IPSASB moves to a decision on this matter, it is useful to consider whether there is merit in an approach that disengages the elements as identified in CF–ED2 from their recognition in specific financial statements. This would allow the Conceptual Framework to, for example, reflect that both measures of financial performance and financial position are to be presented in financial statements included in GPFRs and identify how the elements work together to deliver each of those measures, without specifying that a particular measure is to be presented in the statement of financial performance (or another statement). How the elements may be presented in a statement of financial performance and financial position consistent with each of the measures identified in the Conceptual Framework could be illustrated by example, with an acknowledgement that the form and contents of individual financial statements are specified at standards level.
37. Such an approach may also allow for a more principle driven definition of deferred inflows and deferred outflows, which could respond to concerns of a number of respondents regarding the characteristics of these elements as specified in CF–ED2. Specification of the financial statements in which the elements are to be reported and requirements and guidance on their presentation and additional information needed to put them in context may then be specified at standards level consistent with the principles established in the Framework,

The nature of deferrals that may be identified as separate elements.

38. Paragraph BC 44 of CF–ED2 explains that the IPSASB decided to narrow application of deferrals to non-exchange transactions that specified the period of use of the resources transferred because of concerns that broad definitions of deferrals that should be identified as elements might be used inappropriately. However, some respondents questioned the conceptual rationale for such a narrowing of application (Respondents 003, 008, 012, 014, 025,038, 038), and in some cases noted that the form of the stipulation could influence the measure of performance presented in the statement of financial performance. The examples above reflect that this may well be the case. There is then a case that CF–ED2 should identify those deferrals that qualify as separate elements on an “in-principle” basis, leaving more detailed requirements developed at standards level to provide protection against inappropriate application.
39. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* explains that conditions and restrictions imposed on inflows of transferred assets from a non exchange transaction may require an entity to use or consume the asset for a particular purpose, and

describes such circumstances as giving rise to a performance obligation. However, IPSAS 23 also explains that only “conditions” require that future economic benefits or service potential be returned to the transferor in the event that the performance obligation is breached and, therefore, it is only the performance obligations arising from conditions that give rise to liabilities. Paragraph BC 26 of CF–ED2 also explains that a performance obligation involves the transfer of goods or services to another party under the terms of a contract or other binding arrangement.

40. However, some responses to CF–ED2 reflect that a stipulation on use of resources transferred to a recipient without a return obligation can impose a performance obligation on the recipient that, while not necessarily satisfying the definition of a liability, may well give rise to a separate element. Similarly, from the perspective of the transferor, such a transfer reflects a prepayment of resources that will be deployed to achieve its (the transferor’s) objectives in future periods and, while not satisfying the definition of an asset, may well give rise to a separate element. These respondents note that CF–ED2 could usefully clarify the relationship of deferred inflows and deferred outflows to other deferrals and prepayments that exist within the existing set of elements, for example:

“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.” (Respondent 005)

41. The TBG is of the view that the nature of these deferrals may be better described as deferred obligations (rather than deferred inflows) and deferred resources (rather than deferred outflows). It notes that some respondents are of the view that IPSAS 23 could be revisited to clarify the treatment of such deferrals including to ensure they are encompassed in conditions as appropriate, or otherwise dealt with by guidance at standards level. However, the TBG remains uncomfortable that unless recognized as separate elements, deferred obligations and deferred resources will be included with revenues and expenses or assets and liabilities, and will undermine the clarity of those elements and the notions of financial performance and position presented in the financial statements.
42. Consequently, it is proposed that, as part of its discussion at this meeting, the IPSASB’s consider whether: (a) the terms “deferred obligations” and “deferred resources” (rather than deferred inflows and deferred outflows) should be adopted, and (b) the rationale underlying the narrowing of their focus to deal with only time stipulated non-exchange transactions is robust and does achieve the notion of financial reporting intended. That discussion could also include consideration of whether deferred obligations and deferred resources should be defined more broadly by drawing on their characteristics as defined in CF–CP2. For example as:
- (a) Deferred resources: an entity’s consumption or reduction of net assets that is applicable to a future reporting period; and
 - (b) Deferred obligations: an entity’s increase or acquisition of net assets that is applicable to a future reporting period.
43. Subject to IPSASB views, these approaches could be further developed for consideration at the IPSASB’s December meeting.

Matter(s) for Consideration

1. The IPSASB is asked to **consider** staff and TBG views and **provide** directions on whether:
 - Deferred inflows and deferred outflows are to be identified as elements of the statement of financial position; and/or
 - Other matters identified by staff and the TBG are to be further developed.

Other matters for clarification

44. If the IPSASB retains the approach to reporting financial performance as identified in CF–ED2, staff is of the view that some aspects of the explanation in CF–ED2 could be refined to clarify and support that approach. These are outlined below.

Stipulations and conditions

45. CF–ED2 refers to stipulations (paras 5.3 and 5.4), conditions (paragraphs 3.8, 5.4 and 7.1 – though perhaps not with the same meaning in all cases) and restrictions (timing restrictions and external restrictions are referred to at BC 35, BC 40 and BC 46 and in the AVs).
46. These terms are central to an understanding of the nature of deferred inflows and outflows. Staff anticipates that most readers interpret these terms as having the same meaning as currently defined in IPSAS 23. However, that may not be true in all cases and, consequently, interpretations may differ. There is then a case that the same term should be used consistently throughout the document where it is intended to have the same meaning, and this term should be defined or its meaning explained. Exchange and non-exchange transactions are defined in a footnote in Chapter 2 of the Conceptual Framework. Staff proposes that a similar approach be used here. That is the first reference to a stipulation in paragraph 5.3 be supported by a footnote which explains:

“For the purposes of this Conceptual Framework, stipulations are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity, but do not specify that service potential or economic benefits are required to be returned to the transferor if not used as specified. Consequently, a stipulation does not give rise to a liability as defined in this Conceptual Framework”

47. Consequential amendments could then be made to paragraphs 5.4, BC 35, BC 40, BC 46 and, subject to agreement of their authors, the AVs.
48. Amendments to the text of CF–ED2 (but not to the AVs) are identified by mark-up in the attached Agenda Paper 4A.3 for Members’ review.

Deferred inflows and deferred outflows as possible elements of the statement of financial performance

49. The Basis for Conclusions in CF–ED2 explains the rationale for identification of deferred inflows and outflows as separate elements, but does not make explicit the reasoning underpinning their identification as separate elements of the statement of financial position rather than separate elements of the statement of financial performance. For example, paragraph BC 40 explains:

“...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.”

50. Staff is of the view that, for completeness, it is appropriate to acknowledge in the Basis for Conclusions that the identification of deferred inflows and deferred outflows as separate elements

of the statement of financial performance had been considered by the IPSASB but was rejected because of concerns about its operation. Staff understands this was encompassed in consideration of an “other comprehensive income” type approach, except that deferred inflows and deferred outflows would be defined as elements of the statement of financial performance. Such an approach may overcome concerns identified in BC 42 and BC 43 about inconsistency in practice and perceptions that disclosure may be seen as a substitute for recognition. However, the IPSASB rejected this approach because of concerns that it would give rise to issues related to recycling of deferred inflows and outflows to revenues and expenses of the time stipulated period.

51. Staff is of the view that inclusion in the Basis for Conclusions of an acknowledgement that such an approach had been considered would ensure that the Conceptual Framework would reflect that the IPSASB’s discussion of notions of presentation of financial performance had included a full range of options.

52. To give effect to this, an additional paragraph along the following lines could be added following BC 43 to explain.

“The IPSASB also considered whether deferred inflows and deferred outflows should be identified as elements of the statement of financial performance to overcome concerns identified in BC 42 and BC 43. The statement of financial performance could then report a surplus (deficit) before deferred items (Revenue – Expenses) and after deferred items (Revenues - Expenses + (deferred outflows - deferred inflows)). However, this approach was rejected because of concerns that it would require recycling of deferred inflows and deferred outflows to revenues and expenses of the time stipulated period of their use, and this would unnecessarily complicate and undermine the understandability of the financial statements.”

53. This paragraph is included as boxed text after paragraph BC 43 in the attached Agenda Paper 4A.3 for Members’ review.

Explanation of negative net financial position

54. Paragraph BC 47 of CF–ED2 explains:

“A 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.”

55. Some respondents (016, 028) expressed concern that this explanation of implications of a negative net financial position may need to be refined to accommodate the relationship between net assets and net financial position. Staff is of the view that it could be “softened” to, for example:

- (a) Acknowledge that net assets may be positive because time stipulated inflows have been received and will be released as revenue in future periods; and
- (b) Note that the net financial position at period end needs to be considered in the context of long term financial performance of the entity.

56. Staff is of the view that an additional sentence along the following lines could be added to paragraph BC 47 to acknowledge that there are a range of factors that may need to be considered in interpreting net financial position:

“However, any interpretation of a negative financial position would need to be made after consideration of such matters as whether net assets are positive and in the context of the longer run performance of the reporting entity.”

This sentence is included as marked-up text in Agenda Item 4A.3 for Members' review.

Matter(s) for Consideration

2. The IPSASB is asked to **consider** staff views and, subject to its decision on retention of deferred inflows and deferred outflows as elements, **confirm** whether it agrees with the amendments proposed by staff.

Attachment 1 – Extracts from Chapter 2 of the Conceptual Framework

Information Provided by General Purpose Financial Reports

Objectives of Financial Reporting

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).

....

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for; and
 - Complying with relevant budgetary, legislative, and other authority regulating the raising - and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
 - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control; and
 - The physical and other resources currently available to support the provision of services - in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

.....

Financial Position, Financial Performance and Cash Flows

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.15 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

2.16 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.

Explanatory Information

2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

BC2.19 Consequently the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period; its compliance with approved budgets and legislation or other authority governing the raising and use of resources; and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

Attachment 2 - Extracts from the Elements Consultation Paper

Approaches to Reporting Financial Performance

- 4.1 Governments and other public sector entities raise resources from taxpayers, service users, and other resource providers, to help provide services to citizens and other service recipients for a variety of social and economic purposes. The entities are accountable to those who provide them with the resources, and to those who depend on them to use the resources to deliver necessary services and fulfill existing obligations.
- 4.2 To fulfill the accountability objective and meet user needs for information for decision-making purposes, financial statements need to provide the following information about both financial position and financial performance:
- The amount and type of resources raised by a government or other public sector entity during the reporting period, the resources available to support future operations, and the obligations to be met in future periods; and
 - The amount and type of resources used in providing services, the acquisition of capital assets, the repayment of debt, or for other purposes during the period.
- 4.3 Users of financial statements are interested in the financial performance of the entity's management. The statement of financial performance facilitates assessments of the entity's resource requirements, the purposes to which resources were used, and the nature and extent of its revenue-raising activities. The net results over the period provide a measure of whether the revenues recognized were sufficient to meet the costs incurred during the period.
- 4.4 There are two different approaches as to what is meant by financial performance. These result in possible different definitions of the elements related to financial performance and financial position. One approach measures financial performance as the net result of all changes in the entity's resources and obligations during the period (asset and liability-led approach), while the other measures financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period (revenue and expense-led approach).
- 4.5 The proponents of both approaches to financial performance support the importance of the statement of financial performance in meeting the objectives of financial reporting; and agree that financial performance excludes transactions with owners, and that the approaches are not directly associated with particular measurement choices.

Revenue and Expense-Led (R&E) Approach

- 4.6 Under the R&E approach, revenues and expenses are identified and defined as the primary elements—basically as flows that relate to the efforts of the current period.
- 4.7 Financial performance under this approach is measured based on flows that relate directly to current period operations. This requires the deferral of some flows and the recognition of deferred items (deferred inflows and deferred outflows) in the statement of financial position. This approach, therefore, sees accounting as a process of allocating inflows and outflows to particular periods. The principal building blocks of such a system are events, transactions, and the resource flows they entail, rather than resources and obligations.

4.8 A public sector application of this approach attributes the costs of services to the period in which the services are provided, and attributes tax and other revenue to the period in which they were intended to finance the related costs. Users of financial statements are then able to assess whether the taxes and other revenues recognized in the period were sufficient to finance the recognized costs of providing programs and services during that period.

Asset and Liability-Led (A&L) Approach

4.9 Under the A&L approach, assets and liabilities are identified and defined first—basically as resources and obligations. Revenues and expenses are then defined as the result of changes in assets and liabilities. In fact, assets are the starting point for determining all of the other elements, as liabilities are defined with reference to their being claims on assets.

4.10 This approach views financial performance as the change in net financial position over the reporting period. All items that represent increases or decreases in the recognized net resources of the entity between financial reporting dates are included in this measure.

4.11 To give meaning to financial performance and, therefore, to the elements comprising financial performance, the elements constituting financial position—assets and liabilities—must first be given meaning. For this reason, assets and liabilities are the principal building blocks of such a system, and are defined in terms of resources and obligations, that is, in terms of real economic phenomena. Revenues and expenses are then defined in terms of changes in the net resources.

Illustrating the Approaches

4.12 The choice between the two approaches directly affects the elements to be defined and the basis for their definition. The following examples illustrate the basic differences between the two approaches. Other examples using specific public sector situations could be used, but the variability of such arrangements internationally combined with unresolved liability definition issues, increase their complexity and limit their usefulness in explaining the two approaches.

4.13 *Example 1:* In Year 20X1, public sector entity X receives a CU2,000 grant to finance the construction of a public library. The grant requires repayment of the full amount only if the funds are not used to construct the library; the grant does not relate to the library's operations. The entity recognizes obligations from a non-exchange transaction as a liability until the conditions imposed on the entity have been met. The library is completed and paid for at the end of 20X2, is expected to have a 40-year useful life, and its costs are recognized as expenses over the periods benefitting from use of the library services. The table below illustrates how financial performance and financial position differ under the two approaches to element definition for public sector entity X.

Asset and Liability-Led Approach

	20X1	20X2	20X3
Statement of Financial Performance:			
Revenue	-0-	2,000	-0-
Expense	-0-	-0-	50
Surplus (deficit)	-0-	2,000	-50
Year-end Financial Position:			
Asset	2,000	2,000	1,950
Liability	2,000	-0-	-0-
Net assets (net liabilities)	-0-	2,000	1,950

Revenue and Expense-Led Approach			
	20X1	20X2	20X3
Statement of Financial Performance:			
Revenue	-0-	-0-	50
Expense	-0-	-0-	50
Surplus (deficit)	-0-	-0-	-0-
Year-end Financial Position:			
Asset	2,000	2,000	1,950
Liability	2,000	-0-	-0-
Deferral		2,000	1,950
Net assets (net liabilities), including deferrals	-0-	-0-	-0-

4.14 Under the A&L approach, public sector entity X reports a CU2,000 liability only until the conditions of the grant are met. When met, the entity has no further obligation to the grantor and the CU2,000 is recognized as revenue. This amount is included in the measure of financial performance in 20X2, and is included in the net assets of public sector entity X in the same year. The library asset is a resource, and it continues to be recognized as an asset with its cost allocated to expense for each period it is used to provide services.

4.15 Under the R&E approach, the CU2,000 inflow from the grantor cannot be associated with the operations of public sector entity X until 20X3, when the benefits associated with the grant begin. Because it does not meet the definition of revenue until 20X3, the full CU2,000 inflow is recognized as a liability (in 20X1) or deferred inflow (in 20X2 and 20X3) until that time on the statement of financial position. The benefits associated with the grant are recognized as revenue and included in the measure of financial performance over the useful life of the asset it helped to finance, beginning in 20X3, and the deferred inflow is reduced in the same pattern. Under this approach, the library is recognized as an asset on the basis that it is a resource that will benefit future periods, and its cost is recognized as an expense over the period it is used to provide services.

4.16 *Example 2:* Based on law, on January 1, Year 20X1, 20X2, and 20X3, Government Y levies a property tax of CU100 each for the years 20X1, 20X2, and 20X3 respectively. In 20X3, the law is changed so that a CU100 tax for 20X4 is levied on December 1, 20X3 instead of January 1, 20X4. Government Y follows a policy of recognizing the tax asset (taxes receivable) in the period the tax is levied.

4.17 The table below illustrates how the major elements, and the statements of financial performance and financial position differ under the two approaches to element definition.

Asset and Liability-Led Approach

	20X1	20X2	20X3
Statement of Financial Performance:			
Revenue	100	100	200
Expense	-0-	-0-	-0-
Surplus (deficit)	100	100	200
Year-end Financial Position:			
Asset	100	200	400
Liability	-0-	-0-	-0-
Net assets (net liabilities)	100	200	400

Revenue and Expense-Led Approach

	20X1	20X2	20X3
Statement of Financial Performance:			
Revenue	100	100	100
Expense	-0-	-0-	-0-
Surplus (deficit)	100	100	100
Year-end Financial Position:			
Assets	100	200	400
Deferral	-0-	-0-	100
Net assets (net liabilities), including deferrals	100	200	300

4.18 For the first two years, both approaches report the same amounts for revenues, surplus, and net assets. In 20X3, however, the revenue, surplus, and net asset amounts differ. Under the A&L approach, the full CU200 of 20X3 asset inflows are recognized and reported as revenue. This result is reported because the CU100 asset inflow related to 20X4 does not result in an obligation that is recognized as a liability at December 31, 20X3. Because the net assets increased by CU200 in the year, that is the measure of financial performance for 20X3.

4.19 Under the R&E approach, the accounting decision reflects a judgment about the inflows that should be reported on the period's statement of performance. Because only CU100 of the asset inflows in 20X3 are considered attributable to the provision of 20X3 services and programs, the other CU100 asset inflows (for 20X4 services and programs) are recognized as deferrals on the statement of financial position at December 31, 20X3. The measure of financial performance for each period therefore represents the net asset inflows over time that are attributable to the period's programs and services.

Advantages of Each Approach to Element Definition

Revenue and Expense-Led Approach

4.20 In the public sector, the budget plays an important role in the accountability cycle of the entity. It is the publicly communicated document against which results are measured, the basis upon which taxes are levied, and the basis for planning the resources needed for the goods and services to be provided for a predetermined period, usually a year. The focus on current operations in the R&E approach therefore is seen to increase the relevance of the statement measuring financial performance.

4.21 It is argued that, because a public sector entity is accountable for raising revenue and the uses to which it is put, this should be the primary indicator of the financial performance of the entity. Further, the principle that taxpayers pay only for the services they receive, and not pass on obligations to future taxpayers, should underlie any measure of financial performance. The R&E approach may better align with these features.

4.22 Supporters contend that the surplus/deficit is a measure of the performance of the entity and its management. Therefore, measuring revenue and expenses and the timing of their recognition should be the focus of financial reporting. Since revenues and expenses are the key measures of financial performance, net financial position should be determined as a result of this process.

4.23 In addition, a statement of financial position that includes deferred items reduces volatility in reported financial performance. Because there is an appropriate allocation of flows to future periods that are not associated with the current period, users can better assess the financial impact of current period services.

Asset and Liability-Led Approach

4.24 The predominant thinking behind this approach is that the measure of financial performance should be grounded in real economic phenomena. Assets and liabilities represent resources and obligations that can be observed and verified directly. Using asset and liability definitions as anchors imposes limits or restraints on what can be included in assets and liabilities (financial position), and also in the directly related aspect of financial performance. All items that represent changes in the net resources of the entity between the financial reporting dates are included in the measure of financial performance, ensuring a high level of reliability, understandability, consistency, and comparability of the information, and resulting in a relevant metric to assess accountability.

4.25 Because this approach includes all changes in assets and liabilities in one statement, and produces one “bottom line” for explaining the change in net assets/net liabilities, it does not require judgment to determine which transactions and events that affect financial position are included or excluded from any specific period’s measure of financial performance. Artificial smoothing of periodic results is avoided. Proponents of the A&L approach argue that unless critical terms such as “applicability to the current period” and “non-distortion” of surplus/deficit can be precisely defined, surplus/deficit calculations that result from other approaches are largely subjective. Past experience and attempts to define revenue and expense independently as the primary foundation of financial statements have generally not been successful.

4.26 Proponents of this approach also suggest that the need to focus on a public sector entity’s resources, such as its physical assets available to provide future services, and obligations to be settled in the future, supports taking an A&L approach. For example, because public sector entities function to provide public goods and services, it can be argued that the conceptual underpinning of financial statements should be the resources available to provide those services, obligations to transfer those resources to others, and the net resources available to finance future operations. From this point of view, it is important to determine whether the extent of the resources available for future periods, or the obligations arising from past periods, have increased or decreased. Measuring financial performance on this basis provides this information.

Summary

4.27 Regardless of whether an A&L approach or a R&E approach is taken, the asset and liability elements can be defined in the same way (i.e., as resources and obligations) if new elements are identified to capture the deferred outflows and deferred inflows that result from applying the R&E approach. To develop the revenue and expense elements

Deferred Inflows and Outflows

- 5.1 Earlier sections of this paper indicate that some support a measure of financial performance that reports on the extent to which the burden of the current year cost of providing programs and services is borne by current year taxpayers and revenue providers. Under this approach, the concept of inter-period equity is considered to be a relevant metric for assessing accountability. It also provides decision-useful information about whether, and the extent to which, the government has deferred costs or resources to future periods.
- 5.2 This approach defines the elements of revenue and expense on the basis of their applicability to the current period. This is derived from the revenue and expense-led approach to elements and financial performance. Both the concept of inter-period equity and the traditional private sector matching concept associate accounting events with periods; however, the criteria for associating events with periods and the objectives of the related financial reporting are different.
- 5.8 The first approach maintains a flow of resources approach and defines deferred items as follows:
- (a) Deferred outflow (of resources): an entity's consumption or reduction of net assets that is applicable to a future reporting period; and
 - (b) Deferred inflow (of resources): an entity's increase or acquisition of net assets that is applicable to a future reporting period.

CONCEPTUAL FRAMEWORK: ISSUES PAPER ON RESPONSES TO CF–ED2

Assets, Liabilities, Revenues, Expenses, Ownership Contributions and Ownership Distributions

1. The following sections propose amendments to Exposure Draft 2 (CF–ED2), *Elements and Recognition* to deal with issues identified by respondents, including those identified in the staff paper presented at the June 2013 meeting but not dealt with at that meeting. They also identify staff's proposed amendments to CF–ED2 to respond to directions of the IPSASB at the June 2013 meeting and consequential issues identified by the TBG and staff.
2. An extract of the minutes of the June 2013 meeting identifying the decisions and directions of the IPSASB at that meeting is included at Agenda Item 4A.4.
3. Proposed changes to the text of CF–ED2 in response to these issues are identified in marked-up form or as boxed text in Agenda Item 4A.3 for Members' review.

Specific Matter for Comment 1: Definition of an Asset

4. Paragraph 2.1 of CF–ED2 defines an asset as follows:
"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."
5. At its June 2013 meeting, the IPSASB provided directions for amendments to a number of aspects of the text dealing with key characteristics of an asset and the related Basis for Conclusions paragraphs. The following identifies staff proposals in response to those directions.

Control

6. Respondents 008 and 038 noted that in paragraph 2.6(b) of CF–ED2 the discussion of control is very broad and focuses on power without linking back to the notion of the entity deriving benefits from the resource, and proposed a form of wording to overcome this concern. At the June 2013 meeting staff proposed that paragraph 2.6 be reworded along the lines suggested by these respondents. The IPSASB did not object to that amendment. Staff is of the view that amendments to this paragraph could also make clear that the entity benefits from the service potential or economic benefits embodied in the resource in the achievement of its objectives – this will go some way to respond to concerns of some respondents (012, 015, 31) that it be clearer that the benefits of the resource will also flow to constituents in the form of services provided by the entity that controls it. Boxed text following paragraph 2.6 in Agenda Item 4A.3 identifies the wording proposed by staff to give effect to this amendment. It is proposed that the paragraph read:

"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 in the achievement of its service delivery or other objectives".

Relationship between an asset and a resource

7. CF–ED2 paragraph 2.1 defines an asset and paragraph 2.2 explains what a resource is. Some respondents commented on the relationship between the definition of an asset and the explanation of a resource in paragraph 2.2 (018, 036), noting a concern that there is overlap between the

definition of an asset and the explanation of a resource, and that in its current form the explanation of a resource adds little to the definition of an asset.

8. Staff agrees that the explanation of a resource in paragraph 2.2 duplicates some parts of the definition of an asset which gives rise to a blurring of the distinction between a resource and an asset. Staff feels that in some places in CF–ED2 the term *resource* and *asset* may be used interchangeably, and could usefully be revisited to clarify any misinterpretation.
9. Staff believe a remedy to the drafting issue is to remove the phrase “...with the ability to provide an inflow of service potential or economic benefits” from the definition of an asset, because paragraph 2.2 makes it clear that this is the characteristic of a resource. Paragraph 2.2 would then identify the circumstances in which a resource would satisfy the definition of an asset. To avoid any potential misinterpretation of the use of the terms “assets” and “resources” in the text, consequential amendments could then be made to paragraphs 3.13 and BC 24 of CF–ED2 to clarify and confirm that a present obligation involves an outflow of resources from the entity.
10. Staff proposed amendments are identified in Agenda Item 4A.3 by marked-up text to paragraphs 2.1, 2.2, 3.13 and BC 24 for Members’ review.

Inflows of Service potential and economic benefit

11. Paragraph 2.1 of CF–ED2 defines an asset as “...a resource, with the ability to provide an inflow of service potential or economic benefits...” Some respondents (011, 012, 014, 020, 025, 031, 037) expressed concern with the interpretation of some aspects of this phrase, including that it be amended to reflect that there would be “future” inflows of service potential or economic benefits and that the notion of an “ability to provide an inflow” be further explained to, for example, note that there should be an “expectation” that such an inflow would occur. The PSASB considered these matters at its June 2013 meeting and agreed that the term “future” should not be included in the definition but that the Basis for Conclusions should include an explanation that inflows contribute to operating capacity and therefore the ability of an entity to deliver services in the future. Paragraph BC 3 has been amended to respond to the IPSASB’s direction
12. Three of these respondents (012, 025 and 031) also express a concern that reference to the ability to provide “an inflow” of service potential or economic benefits appears to describe a future resource rather than a present resource that the entity controls. They also note that this reflects that an asset delivers an inflow of service potential to the entity, rather than an entity using its service potential to provide services to the community. These respondents advocate that it would be clearer to explain that an asset is a resource that represents or has the capacity to provide service potential or economic benefits.
13. The text of CF–ED2 does not refer to the ability to provide “an inflow” of service potential or economic benefits in describing resources or assets – for example paragraphs 2.3 and 2.4 of the ED explain that a resource and an asset provide or embody service potential or economic benefits.
14. Staff takes the point made by these respondents that inclusion of “an inflow” in the definition of an asset or resource does not, or may be interpreted to not, reflect the characteristics of an asset such as an ambulance, hospital or school that represents stocks of service potential or economic benefits that the entity currently controls and are consumed in delivering services to constituents. Consequently staff proposes deletion of the phrase “an inflow of” from the definition of an asset and a resource.

15. Staff proposed amendments are identified in Agenda Item 4A.3 by marked-up text to paragraphs 2.1 and 2.2 for Members' review.

Indicators of Control

16. Paragraph 2.7 of CF-ED2 provides a number of factors to be considered in determining whether control exists. Two respondents (031 and 039) suggested adding the entity that bears the risks associated with the asset to this list as an indicator of control. At the June 2013 meeting, the IPSASB decided not to add risks and rewards to the list of indicators of control and directed that the observation in paragraph BC 16 that the risks and rewards of ownership was not considered compatible with the control approach should include a fuller explanation of the reasons for this decision.
17. Staff proposed amendments to give effect to this direction are identified in boxed text following paragraph BC 16 in Agenda Item 4A.3. The explanation draws on the views of the IPSASB in the Basis for Conclusions of IPSAS 32, *Service Concession Arrangements* as applied more broadly to also encompass assets that provide services in non-exchange transactions.

Unconditional rights

18. Respondents (003, 039) expressed concern that the explanation in paragraph BC 6 of CF-ED2 that:
 - (a) 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*", may be read as not reflecting the principles established in the definition of an asset; and
 - (b) "*...the identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue.*" did not provide a link to, or acknowledge, the conceptual underpinnings that would provide guidance to the standards level discussion.
19. At its June 2013 meeting, the IPSASB agreed to revisit the explanation of unconditional rights in paragraph BC 6 of CF-ED2 at this meeting. Staff proposes that to respond to the concerns identified by these respondents paragraph BC 6 should confirm that to qualify for recognition unconditional rights would need to satisfy the definition of assets and the recognition criteria. Paragraph BC 6 could then explain that the recognition criteria are likely to be met where such rights are acquired in an exchange transaction or where they can be traded or valued by reference to a market. Staff is of the view that this reflects application of the principle established in CF-ED2.
20. Staff proposed amendments are included in Agenda Item 4A.3 in boxed text after paragraph BC 6 for Members' review.

Executory contracts

21. Some respondents (003, 031, 037) expressed concern that paragraph BC 7 of CF-ED2 stated that whether rights and obligations related to executory contracts should be recognized as elements is a standards-level issue. Underpinning the concern of these respondents is a view that whether assets and liabilities arise from unconditional rights and obligations reflected in executory contracts should be driven by an assessment of whether those rights and obligations satisfy the definitions of the elements in the Conceptual Framework—one respondent proposed that on this basis the discussion in paragraph BC 7 could be removed.

22. Staff is of the view that the concerns of these respondents are valid, and paragraph BC 7 should be refocused to explain that whether or not assets and liabilities arise from executory contracts depends on satisfaction of the definitions and recognition criteria in the Framework. Paragraph BC 7 could also explain that the IPSASB has the capacity to respond at standards level to concerns about the adverse impact on understandability that recognizing gross amounts of any elements might have. Consequently, what mechanisms for presentation of the elements in financial statements best satisfies the QCs will be considered at standards level.
23. Staff proposed amendments are identified in Agenda Item 4A.3 by marked-up text to BC 7 for Members' review.

Matter(s) for Consideration

1. The IPSASB is asked to **note** the staff proposed response to the directions of the IPSASB at the June 2013 meeting and additional issues arising from 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

24. Paragraph 3.1 of CF–ED2 defines a liability as follows:
- “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.”*
25. At its June 2013 meeting, the IPSASB provided directions for amendments to some aspects of the definition of a liability and supporting explanation. The following identifies staff proposals in response to those directions and additional issues not considered at the June 2013 meeting.

Relationship between a liability and a present obligation and related terminology

26. The explanation of a present obligation in paragraph 3.2 of CF–ED2 duplicates some parts of the definition of a liability in paragraph 3.1. It also identifies a characteristic of a present obligation which is not identified in the definition itself—that is, that a present obligation *is a legal or non-legal binding requirement*. Staff proposes that paragraph 3.2 of CF–ED2 be revised consistent with the approach proposed above (at paragraph 9 of this paper) to establish the relationship between the description of key components of an asset and the definition of the asset itself.
27. To this end staff proposes that paragraph 3.2 of CF–ED2 be refocused to identify the key features of a present obligation and explain the circumstances in which a present obligation will give rise to a liability.
28. At the June 2013 meeting, staff noted that a number of respondents expressed concern that the term “non-legal binding requirement” could be interpreted as referring to requirements that were not legal. The IPSASB directed staff and the TBG to identify an alternative term for further discussion at a future meeting, but, in the meantime, tentatively agreed to retain the term “non-legal binding obligations. Staff proposes that the term “other binding requirement” be adopted as this appears to embrace a range of circumstances that may give rise to present obligations in different jurisdictions, and avoid any inappropriate interpretation.
29. Staff proposed amendments to paragraph 3.2 to reflect these proposals are included in in Agenda Item 4A.3 in boxed text after paragraph 3.2 for Members' consideration. Subject to IPSASB

agreement on replacement of the term “non-legal binding requirement” with “other binding requirement”, consequential amendments will be made to the remaining paragraphs for consideration at the next meeting. The amendment proposed in paragraph 3.2 is of course subject to decisions the IPSASB may make in its consideration at Agenda Item 4A.1 of the notion of financial performance that is to be reflected in the Conceptual Framework, and whether there are obligations that might give rise to other elements in particular circumstances.

Little or no realistic alternative to avoid

30. Consistent with the directions at the IPSASB meeting in June 2013, the phrase “little or no realistic alternative to avoid” has been amended to read “no realistic alternative to avoid” wherever it appeared in CF–ED2. An explanation of the reasons for this change has been included in the Basis for Conclusions. That explanation notes that some respondents to CF–ED2 were concerned that the term is open to different interpretations and implies a virtual certainty threshold for determining whether a present obligation exists—and this was not the intent of the IPSASB.
31. Staff proposed amendments are included in Agenda Item 4A.3 as marked-up text where appropriate. The explanation of the change is included in boxed text preceding paragraph BC 29 for Members’ review.

Political and economic coercion

32. Consistent with the directions of the IPSASB at its meeting in June 2013, a reference to political coercion has been added in mark-up to paragraph 3.7 of Agenda Item 4A.3.

Conditional and Unconditional Obligations and Stand-ready obligations

33. A number of respondents (003, 014, 029, 031, 037, 038, 039).did not agree with the explanation in CF–ED2 at:
 - (a) Paragraph BC 22 that “...distinguishing between conditional and unconditional obligations is not useful for defining a liability because a conditional obligation can give rise to a liability”; and/or
 - (b) Paragraph BC 24 that “The IPSASB formed a view that the notion of a stand-ready obligation does not work well in a public sector non-exchange context because it is very difficult to distinguish a stand-ready obligation from other conditional obligations and the IPSASB decided not to use the term in the Conceptual Framework because it could give rise to assumptions about the recognition of liabilities related to the ongoing provision of social benefits. Consequently the issue of liabilities arising from social benefits should be considered at the standards level.”
34. At its June 2013 meeting, the IPSASB discussed differences between the public and private sectors in relation to stand-ready obligations including that governments are often the lender of last resort and that the range and complexity of programs for the delivery of welfare and other social benefits can differ significantly for different programs within and between jurisdictions. The IPSASB tentatively agreed to retain the position in paragraphs BC 22 and BC 24 of CF–ED2, and that the Basis for Conclusion should be further developed to reflect the IPSASB’s discussion.
35. Staff proposed amendments to reflect these directions are included in Agenda Item 4A.3 in boxed text following paragraph BC 22 and BC 24, for Members’ review. They are intended to draw out the complexity of public sector circumstances as discussed by the IPSASB at its last meeting and

acknowledge that, while dealing with particular arrangements may be a standards level issue, whether obligations and liabilities arise from those circumstances will depend on whether they satisfy the definition and recognition criteria in the Framework. The amendments are also intended to overcome concerns that the wording of the paragraphs may be interpreted as presenting unintended obstacles to the IPSASB developing guidance on what may be described as stand-ready obligations or performance obligations¹ in the future. Consequential drafting amendments are also proposed for paragraph BC 26 in respect of performance obligations.

36. Of course, this approach does not address the concerns of those respondents that that advocate that the Conceptual Framework should provide guidance for use at the standards level on whether a present obligation can arise if the past event has occurred but the requirement to transfer resources is subject to future events outside the control of the entity (stand-ready obligations) or is conditional on the future actions of the entity.
37. As noted in the Project Coordinators Report at Agenda item 4.1, the IASB Discussion Paper “A Review of The Conceptual Framework for Financial Reporting” explains that the IASB has agreed that (i) “stand-ready” obligations meet the definition of a liability and (ii) tentatively rejected the view that a present obligation can only arise from unconditional obligations. The IASB Discussion Paper also explains that the IASB has not yet reached a tentative view on how narrowly to define the circumstances in which a conditional obligation can give rise to a present obligation. The options being considered are whether a present obligation can arise when the past event has occurred:
- (a) And “*The entity does not have the practical ability to avoid the transfer [of economic resources] through its future actions*”; or
 - (b) But more broadly “*...may be conditional on the entity’s future actions*”.

Commitments

38. Respondents (006, 035) commented that commitments are not mentioned in the Framework although they are very significant in the public sector. At its June 2013 meeting, the IPSASB agreed that consideration should be given to acknowledging commitments in the Basis for Conclusions and explaining that commitments are only liabilities if they meet all components of the definition of a liability.
39. An additional proposed paragraph to respond to this direction is included in Agenda Item 4A.3 in boxed text following paragraph BC 33, for Members’ review.

¹ The IASB exposure draft “Revenue from Contracts with Customers” (ED/2011/6) defines a performance obligation as a “promise in a contract with a customer to transfer a good or service to the customer” and explains that an entity would recognise revenue when (or as) it satisfies a performance. IASB Discussion Paper “A Review of the Conceptual Framework for Financial Reporting” explains that this is consistent with the proposed definition of a liability. Staff does not perceive that the explanation of performance obligations in BC 26 itself represents an impediment to convergence with the proposed forthcoming IFRS, though the relationship of the definition of revenue in CF-ED2 and income and revenue under IFRSs will need to be worked through.

Matter(s) for Consideration

2. The IPSASB is asked to **note** staff response to the directions of the IPSASB at the June 2013 meeting and additional issues arising from the analysis of responses to SMC 2(a) and 2(b), and to **confirm** whether it agrees with staff views.

Revenues and Expenses

40. Agenda materials presented at the June 2013 meeting included an analysis of respondent's views on the proposed definitions and supporting explanation of revenue and expenses. They also included comments on the explanation of the term net financial position. The IPSASB decided to defer discussion of revenue, expenses and net financial position because of their dependency on decisions about the identification of deferred inflows and deferred outflows as elements of the statement of financial position. Key features of the analysis of responses included in the June 2013 staff paper, and staff proposals in respect of them, are identified below. Staff proposals for refinement to the explanation of revenue and expenses that were not raised at the June 2013 meeting are addressed under the heading of "revenues and expenses arising from full cost recoveries".

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

41. The proposed definition of revenue is "*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."*
42. 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).
43. 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."*
44. 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).

45. Many Respondents did not support the proposed definitions of revenue and expenses because they disagreed with deferred inflows and outflows.
46. 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. Staff is of the view that 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.
47. Respondent 039 expressed a view that the definitions of revenue and expenses 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 would be necessary to expand the definitions of revenue and expenses to provide for revaluations of assets that are not inflows and outflows of resources. Staff's initial reaction is to support modifying the definitions to include such enhancements and decrements. However, any such modification will need to be tested against the notion of financial performance to be reflected in the Conceptual Framework, and the explanation in paragraph 4.7 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"*.
48. Respondents 025, 033 and 040 proposed replacing the terms "revenue" and "expenses", which are widely used by profit orientated entities, with "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.
49. Respondent (015, 026) suggested separating operating revenue and expenses from capital transactions, particularly where restrictions on use of the funds are imposed by the funds provider, or more generally that funds that are subject to restrictions 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.
50. 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.
51. While most respondents acknowledged the need to exclude inflows from ownership contributions from revenue, some did not think the concept of ownership contributions is normally relevant. A similar point applies in respect of the exclusion of ownership distributions from expenses. While ownership contributions and ownership distributions may not arise frequently in the public sector, staff does not believe it appropriate to include such contributions and distributions in revenue or expenses. Staff therefore proposes the IPSASB continue with the present approach of defining ownership contributions and ownership distributions as elements and including the references to them in the definitions of revenue and expenses at paragraphs 4.1 and 4.2 of CF-ED2.
52. A number of respondents considered the explanation of financial performance in paragraph 4.7 of CF-ED2 to be inadequate, and recommended the inclusion of a fuller explanation of the notion of

financial performance and the role of deferred inflows and deferred outflows in CF–ED2. Staff believes amendments to paragraph 4.7 should be considered at this meeting, taking into account IPSASB’s directions on the identification of deferred inflows and deferred outflows as elements. Agenda Item 4A.1 includes a summary of the merits of the different approaches to reporting financial performance identified in the Consultation Paper *“Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements”*. It also notes that Chapter 2 of the Conceptual Framework explains that the financial performance of most public sector entities will not be fully or adequately reflected in any measure of financial results, and will need to be assessed in the context of, for example, the achievement of service delivery objectives, compliance with approved budgets, and prospective financial information. Staff is of the view that this material can form the basis of a comment to be included in the Basis of Conclusions to support paragraph 4.7, and respond to the concerns of respondents.

Revenues and expenses arising from fee for service and subsidized activities

53. Consistent with the definitions in CF–ED2, revenues and expenses arise from inflows and outflows of resources of a period which increase or decrease net assets, other than owner contributions, ownership distributions, deferred inflows and deferred outflows. While revenues and expenses are defined as the net amounts of any inflow or outflow during the reporting period, paragraph BC 36 explains that: “...*The IPSASB acknowledged that standards may require the gross presentation of the relevant flows on the face of the financial statements in certain circumstances, for example, the sale of inventory.*”
54. Staff is of the view that the Basis for Conclusions could usefully expand the explanation to encompass some common public sector non-exchange transactions and arrangements. For example, where a public sector entity provides services on a “full fee for service” basis to constituents or where one party subsidizes part (or all) of the cost of delivery of particular services by a government entity. In these cases, revenues will not arise in respect of fee for service charges or a full subsidy because net assets do not increase as a result of the activity and an expense will arise for the amount of the unsubsidized costs of the services provided. However, to better achieve the objectives of financial reporting and the QCs, gross presentation of relevant flows may be required by standards.
55. Staff proposed amendments to give effect to this clarification are identified in Agenda Item 4A.3 as marked-up text in paragraph BC 36.

Matter(s) for Consideration

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

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

Net assets and net financial position

56. CF–ED2 explains 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.

57. 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. As noted above, the inclusion of net financial position on the statement of financial position will be revisited following the IPSASB's decision on identification of deferred inflows and deferred outflows as elements.
58. 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. For statistical bases of financial reporting, "Net Financial Worth" of an institutional unit (or grouping of units) is defined as the total value of its financial assets minus the total value of its outstanding liabilities² and "Net worth" of an institutional unit (or grouping of units) is the total value of its assets minus the total value of its outstanding liabilities.
59. Staff has included in Agenda Item 4A.1 proposals for refinement to the Basis for Conclusions of CF-ED2 to clarify the interpretation of net financial position and its relationship to net assets, if the IPSASB decides that the Conceptual Framework is to identify deferred inflows and deferred outflows as elements. Staff proposes that clarification of any potential confusion between the meaning of net financial position and net financial worth be considered following the IPSASB's decision on the identification of deferred inflows and deferred outflows as elements.

Ownership contributions and ownership distributions

60. At the June 2013 meeting, the PSASB considered the analysis of responses relating to ownership contributions and ownership distributions and decided that they should continue to be identified as elements of the financial statements.
61. The second sentence of paragraph 6.5 of CF-ED2 refers to transfer of assets and liabilities between public sector entities for no consideration. Respondent 039 suggested that, to avoid confusion, there was a need to clarify how these transfers would be accounted for or explain that the treatment of these transfers would be addressed at a standards level. Staff proposed that the sentence be clarified by explaining that ownership contributions can arise from the transfer of assets and liabilities between public sector entities for no consideration and that detailed guidance should be addressed at standards level. Proposed amendments to give effect to this clarification are identified in Agenda Item 4A.3 as marked-up text to paragraph 6.5 and BC 50.
62. However, on reflection, staff is not convinced that an elaboration of the sentence is necessary since the circumstances dealt with in paragraph 6.5 are encompassed by explanation in paragraph 6.6. Staff is of the view that the sentence should be deleted from 6.5. This approach is illustrated in boxed text following paragraph 6.5 in Agenda Item 4A.3

Ownership contributions and ownership distributions as elements of the statement of financial position.

63. Ownership contributions and ownership distributions are defined at paragraphs 6.3 and 6.4 of CF-ED2 as follows:

² International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011

- (a) *“Ownership contributions are inflows of resources to an entity, contributed by external parties that establish or increase an interest in the net assets of the entity.”*
 - (b) *“Ownership distributions are outflows of resources from the entity, distributed to external parties that return or reduce an interest in the net assets of the entity.”*
64. Paragraphs 1.2 and 6.2 of CF–ED2 specify that ownership contributions and ownership distributions are elements in the statement of financial position. The amount of ownership contributions and ownership distributions reported in the statement of financial position will be “stock” amounts as at the reporting date. Staff understands the rationale for identification of ownership contributions and ownership distributions as elements of the financial statements as explained in paragraph 6.5 and the minutes of the June 2013 meeting, but is uncomfortable with the specification that they are both elements of the statement of financial position. This is because their definitions imply presentation of the accumulated amount of ownership inflows and outflows in the statement of financial position. The comments of some respondents (005, 039) also reflect some concern with the designation of these as elements of the statement of financial position.
65. Staff is of the view that the specification that ownership contributions and ownership distributions are elements in the statement of financial position should be removed. An additional sentence could then be added to paragraphs 1.2 and 6.2 to explain that ownership contributions and ownership distributions are reported in other financial statements included in GPFRs. Amendments to paragraph 1.2 and 6.2 consistent with this proposal are identified by mark-up in Agenda Item 4A.3 for Members’ consideration.

Matter(s) for Consideration

4. The IPSASB is asked to **note** the analysis of responses to SMC 6 (a), and staff response to the directions of the IPSASB at the June 2013 meeting and the additional issues identified and to **confirm** whether it agrees with the response proposed by staff.

Specific Matter for Comment 7: Recognition

66. At its June 2013 meeting the IPSASB noted that some respondents expressed concern that recognition thresholds or criteria for existence uncertainty and measurement uncertainty are not set out in CF–ED2, and that this may be seen as allowing for the recognition of elements with low probabilities of occurring.
67. The IPSASB decided that it was not appropriate to specify recognition thresholds in a Conceptual Framework, and directed that the Basis for Conclusions should include:
- (a) An acknowledgement that thresholds dealing with existence uncertainty may be developed at standards level; and
 - (b) A legal case where the outcome was unknown, as an example of measurement uncertainty.
68. Respondent 012 commented that while the discussion of measurement uncertainty in paragraph 7.5 of CF–ED2 addresses relevance and faithful representation, it does not address the other QCs. At the June 2013 meeting staff proposed that a general reference to the QCs rather than just references to relevance and faithful representation be included in the paragraph.

69. Staff proposed amendments to give effect to these clarifications are identified in Agenda Item 4A.3 in marked-up paragraph BC 54 and boxed text following paragraph BC 57 for Members' review.

Matter(s) for Consideration

5. The IPSASB is asked to **note** the staff response to the directions of the IPSASB at the June 2013 meeting in respect of issues arising from the analysis of responses to SMC 7, and to **confirm** whether it agrees with staff views.

General editorial/drafting Issues

70. Paragraph BC 2 of CF–ED2 explains: *“As a result of the nature of activities undertaken in the public sector, the IPSASB formed a view that a focus on the current year activities of a public sector entity is important in providing information for the users of financial statements and thereby in achieving the objectives of financial reporting.”*
71. References to the reporting period (rather than the current year) are made later in this paragraph. Paragraph BC 35 of CF–ED2 also notes the importance of focusing on the current year activities, but elaborates on the issue by referring to the impact on different reporting periods. The term “reporting period” rather than “year” is generally used in the text of CF–ED2 and in Chapters 1 to 4 of the Conceptual Framework. Staff proposes that references to year in paragraph BC 2 and BC 35 be replaced by reporting period. Subject to the views of the authors, the AVs could also refer to reporting period.
72. In developing Chapters 1- 4 of the Conceptual Framework and the *Preface to the Conceptual Framework*, the IPSASB decided to refer to “services”, rather than “goods and services”. For consistency with those documents, staff proposes that “services” also be used in this chapter of the Conceptual Framework.
73. Staff proposed amendments to give effect to these drafting amendments are identified by marked-up text in Agenda Item 4A.3

Matter(s) for Consideration

6. The IPSASB is asked to **note** the editorial amendments proposed by staff, and to **confirm** whether it agrees with staff views.

Next Meeting

74. The IPSASB has considered a range of issues identified by respondents to CF–ED2. The most controversial of those issues are the notion of financial performance to be reflected in the Conceptual Framework and whether deferred inflows and deferred outflows are to be identified as elements. It is anticipated that by the end of this meeting the IPSASB will have provided staff with directions on the full range of issues identified at this and the July 2013 meeting.
75. Staff continues to analyze responses to CF–ED2 and compile issues to be addressed as this phase of the Conceptual Framework is further developed. For the most part these additional issues are sharply focused and deal with the extent to which the definitions and their explanation achieve the result intended by the IPSASB, and/or need to be refined to guard against unintended consequences.

76. It is proposed that a first working draft of the “elements and recognition” chapter of the Conceptual Framework reflecting the IPSASB’s decisions to date be prepared for review at the next meeting, together with the remaining issues identified by respondents to CF–ED2.

CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

MARKED UP WORKING DRAFT CHAPTER #1: INCOMPLETE, TO BE FURTHER DEVELOPED.

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CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES:
ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

1. Introduction

Purpose of this Exposure Draft

- 1.1 This Exposure Draft (ED) proposes definitions of elements used in general purpose financial statements (financial statements) of governments and other public sector entities (public sector entities) and provides further explanation about these definitions. It also deals with recognition.

Elements and their Importance

- 1.2 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting¹ and contributes to the qualitative characteristics (QCs) of financial reporting.² The elements in the statement of financial position are assets, liabilities, deferred inflows and, deferred outflows , ownership contributions and ownership distributions. The elements in the statement of financial performance are revenue and expenses. Ownership contributions and ownership distributions are elements of other financial statements included in GPFRs. Determining which definition an item meets will, subject to the satisfaction of recognition criteria, also determine the financial statement in which the item is displayed.
- 1.3 The elements defined in this ED determine which information is presented in the financial statements and the generic types of such information. They are not the individual items themselves. Sub-classifications of individual items within an element and aggregations of combinations of items are used to enhance the understandability of the financial statements. Issues of presentation are addressed in Phase 4 of the *Conceptual Framework*.

Elements Defined in the ED and Approach to Recognition

- 1.4 The elements that are defined in this ED are:

- (a) Assets;
- (b) Liabilities;
- (c) Revenue;
- (d) Expenses;
- (e) Deferred inflows;
- (f) Deferred outflows;

¹ The objectives of financial reporting, as stated in Phase 1 of the Framework, are accountability and decision making.

² The QCs are relevance, faithful representation, comparability, verifiability, timeliness and understandability.

CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES:
ELEMENTS AND RECOGNITION IN FINANCIAL STATEMENTS

- (g) Ownership contributions; and
 - (h) Ownership distributions.
- 1.5 Net assets is the aggregate of an entity's assets less liabilities at the reporting date and can be represented by:
- $$\text{Assets} - \text{Liabilities} = \text{Net Assets}$$
- 1.6 Net financial position is the aggregate of an entity's assets and deferred outflows less an entity's liabilities and deferred inflows at the reporting date and can be represented by:
- $$\text{Assets} + \text{Deferred Outflows} - (\text{Liabilities} + \text{Deferred Inflows}) = \text{Net Financial Position}$$
- 1.7 The relationship between net assets and net financial position is represented by:
- $$\text{Net Assets} + \text{Deferred Outflows} - \text{Deferred Inflows} = \text{Net Financial Position}$$
- 1.8 While net assets and net financial position are defined, neither are elements. Section 6 discusses net assets and net financial position in more detail.
- 1.9 Recognition is a separate process after a transaction or other event has met the definition of an element. Recognition is addressed in Section 7.
- 1.10 The Appendices include boxed comparisons with the International Accounting Standards Board's (IASB) Framework and Statistical Reporting Guidelines.

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2. Assets

Definition

- 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.

A Resource

- 2.2 A resource is an item with the ability to provide ~~an inflow of~~ service potential or economic benefits. To satisfy the definition of an asset that resource must be controlled by the entity and arise from a past event (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:
- (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.

Service Potential or Economic Benefits

- 2.3 The benefits provided by a resource are service potential or economic benefits. Service potential is the capacity of an asset to be used by the entity to provide ~~goods and~~ services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
- 2.4 Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities and provide ~~goods and~~ services to third parties. Such ~~goods and~~ services may be for collective or individual consumption. Many ~~goods and~~ services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted. As highlighted in the ~~ED, Preface to the Conceptual Framework~~ Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics),³ many assets that embody service potential are specialized in nature in order to meet specific objectives.
- 2.5 Economic benefits take the form of cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from:
- (a) An asset's use in the production and sale of ~~goods and~~ services;
 - (b) The direct exchange of an asset for cash or other resources; or
 - (c) Holding cash itself because of its capacity to acquire other resources.

³ The Preface to the Conceptual Framework was made available as a staff draft in July 2013.

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In addition, an asset may be used to settle a liability or to make an ownership distribution.

An Entity Presently Controls

2.6 An entity must have control of the resource at the reporting date. Control of the resource entails:

- (a) The ability of the entity to use the asset's benefits, in the form of service potential or economic benefits, flowing from the resource; or
- (b) The ability of the entity to direct other parties on the nature and manner of use of the benefits embodied in the resource.

Proposed revised paragraph 2.6

2.6 An entity must have control of the resource at the reporting date. 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 in the achievement of its service delivery or other objectives.

2.7 In assessing whether it controls a resource, an entity assesses whether the following indicators of control exist:

- (a) Legal ownership;
- (b) Access to or, conversely, the ability to deny or restrict access to the resource;
- (c) The means to ensure that the resources are used to achieve its objectives; and
- (d) The existence of an enforceable right to service potential or economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision. For example, if an entity cannot deny the access of certain external parties to a resource it is questionable whether the entity has an asset.

Past Event

2.8 The definition of an asset requires that an asset arises from a past transaction or other event. Entities can obtain assets by purchasing them in an exchange transaction or producing them. In such cases, identification of the past transaction or other event is straightforward. Assets may also arise through non-exchange transactions, including by exercising of sovereign powers. The power to tax or to issue licenses, and to access or restrict or deny access to the benefits embodied in intangible resources like the electromagnetic spectrum, are examples of powers and rights that other non-public sector entities do not have. It is essential to determine the point or event at which such rights or powers give rise to an asset of the entity. There are a number of potential points at which such events may occur. Taking the example of a tax, the following points in the process may be identified: (a) a general ability to tax, (b) establishment of a power through a statute, (c) exercising the power to create a right, or (d) the taxable event which gives rise to an obligation of another party to pay the tax. When the power is exercised and the rights exist to receive service potential or economic benefits, an asset arises.

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3. Liabilities

Definition

- 3.1 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.

A Present Obligation

- 3.2 A present obligation is a legal or non-legal binding requirement, which an entity has ~~little or~~ no realistic alternative to avoid, that requires an entity to deliver services or economic benefits to another party.

Proposed paragraph 3.2

A present obligation is a legal or ~~non-legal other~~ binding requirement. To satisfy the definition of a liability, the obligation must be one, which an entity has ~~little or~~ no realistic alternative to avoid, that arises from a past event and requires an entity to deliver services or economic benefits to another party.

Past Event

- 3.3 The complexity of public sector programs and activities means that, particularly for non-legal binding obligations, there are a number of potential points in the development, implementation and operation of a program at which a present obligation may arise. It is therefore essential to identify a past event in order to determine whether an obligation is a present obligation. Where an arrangement has a legal form a past event may be straightforward to identify, such as when a contract is entered into. In other cases it may be more difficult to identify the past event and identification involves analysis of when an entity has ~~little or~~ no realistic alternative to avoid an outflow of service potential or economic benefits from the entity.

~~Little or~~ No Realistic Alternative to Avoid

Legal and Non-Legal Binding Obligations

- 3.4 Binding obligations can be legal or non-legal and arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of the external party to which the obligation is owed is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for a present obligation and liability to exist.
- 3.5 Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an inflow gives rise to a liability and is not an ownership contribution (see Section 6). However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

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Legal Obligations

- 3.6 A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent. There are jurisdictions where government and public sector entities cannot have legal obligations because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in this Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law there can be no doubt that an entity has no realistic alternative to avoid the obligation and that a liability exists.
- 3.7 Enforceability does not include “economic coercion,” or “political coercion” where, although the public sector entity is not under a legal obligation to settle, the economic or political consequences to the entity of refusing to do so are such that the entity may not have a realistic alternative but to settle an obligation. Economic or political coercion may, however, lead to a liability arising from a non-legal binding obligation (see paragraphs 3.10–3.12).
- 3.8 Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—that is to say having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time therefore are enforceable obligations in the context of the definition of a liability.
- 3.9 Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for the non-recognition of obligations that, otherwise, meet the definition of a liability in this Framework. The position should be assessed at each reporting date to consider if the legal position has changed and to determine whether a liability still exists.

Non-Legal Binding Obligations

- 3.10 Liabilities can also arise from non-legal binding obligations. A non-legal binding obligation differs from a legal enforceable obligation in that the party to whom the obligation exists cannot take legal action to enforce settlement. A non-legal binding obligation that gives rise to a liability has the following attributes :
- (a) 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;
 - (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.

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- 3.11 It is essential to determine the point at which a non-legal obligation becomes binding and gives rise to a liability. In the public sector obligations may arise at a number of points. For example, there are a number of early points in implementing a program or service, including:
- (a) Making a political promise such as an electoral pledge;
 - (b) Announcement of a policy;
 - (c) Introduction (and approval) of budget (which may be two distinct points); and
 - (d) Budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).
- 3.12 These early stages are unlikely to give rise to obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability. The point at which a non-legal binding obligation gives rise to a present obligation critically depends on the nature of the obligation. Indicators that are likely to impact on judgments whether the obligation is one that other parties can validly conclude that the entity has ~~little or~~ no realistic alternative to avoid an outflow of service potential or economic benefits include:
- (a) The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the entity has an obligation that it cannot avoid settling. However, an announcement made in the legislature by a majority government, particularly one with all party support, in relation to an event or circumstance that has occurred, and where the government has committed to introduce and secure passage of the necessary budgetary provision may give rise to a non-legal binding obligation.
 - (b) The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legal binding obligation which cannot be modified before being implemented. Similarly, if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of service potential or economic benefits before those events occur.
 - (c) There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, there is a presumption that a present non-legal binding obligation exists. However the absence of a budgetary provision may not, by itself be a reason for not recognizing a liability.

An Outflow of Service Potential or Economic Benefits from the Entity

- 3.13 A liability must involve an outflow of service potential or economic benefits from the entity in order to settle it. An obligation that can be settled without an outflow of resources from the entity is not a liability.

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4. Revenue and Expenses

Definitions

4.1 Revenue is:

- (a) Inflows during the current reporting period, which increase 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.

4.2 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.

During the Reporting Period

- 4.3 Revenue and expenses relate to the current reporting period. This distinguishes them from deferred inflows and deferred outflows that relate to a specified future reporting period. Inflows and outflows relating to unspecified future reporting periods are attributed to revenue and expenses of the current reporting period. A reduction in liabilities can also give rise to revenue.

Increases and Decreases in Net Assets

- 4.4 Revenue and expenses can arise from exchange and non-exchange transactions, other events such as price changes, unrealized increases and decreases in the value of assets and/or liabilities, and the consumption of assets through depreciation and erosion of service potential and economic benefits through impairments. They may arise from individual transactions or groups of transactions.
- 4.5 The definitions of revenue and expenses encompass all increases and decreases in net assets other than ownership contributions, deferred inflows, ownership distributions and deferred outflows. The definition of revenue includes inflows during the current reporting period that result from decreases in deferred inflows. The definition of expenses includes outflows during the current reporting period that result from decreases in deferred outflows.
- 4.6 Section 6 discusses ownership interests and provides definitions of ownership contributions and ownership distributions. Section 5 provides definitions of deferred inflows and deferred outflows.

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Financial Performance

- 4.7 All items that meet the definition of revenues and expenses and the recognition criteria set out in Section 7 are reported on the Statement of Financial Performance. The difference between revenue and expenses is the entity's surplus or deficit for the period, which is the primary indicator of financial performance.

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5. Deferred Inflows and Deferred Outflows

Definitions

- 5.1 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.
- 5.2 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.

Specified Future Reporting Period

- 5.3 A deferred inflow is to be used by the entity in one or more specified future reporting periods. An example of a deferred inflow is a multi-year grant transferred to the entity that does not meet the definition of a liability, but includes a stipulation⁴ by the transferor that it is to be used to finance the general activities of the entity over one or more specified future reporting periods.
- 5.4 A deferred outflow is to be used by the transferee in one or more future reporting periods. An example of a deferred outflow is a multi-year grant transferred by the entity that contains ~~no conditions, but~~ a stipulation by the transferor that it is to be used for the general activities of the recipient entity or party over one or more specified future reporting periods.
- 5.5 When the specified future reporting period occurs, the flows are no longer deferred. A decrease in a deferred inflow would be recognized as revenue. A decrease in a deferred outflow would be recognized as an expense.

Non-Exchange Transactions

- 5.6 Deferred inflows and deferred outflows arise only from non-exchange transactions. Increases or decreases in net assets related to exchange transactions are accounted for as revenue and expenses, ownership contributions or ownership distributions.

⁴ For the purposes of this Conceptual Framework, stipulations are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity, but do not specify that service potential or economic benefits are required to be returned to the transferor if not used as specified. Consequently, a stipulation does not give rise to a liability as defined in this Conceptual Framework.

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6. Net Assets, Net Financial Position, Ownership Contributions, and Ownership Distributions

Net Assets and Net Financial Position

- 6.1 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.
- 6.2 All items that meet the definition of assets, liabilities, deferred inflows and, deferred ~~outflows, ownership contributions, and ownership distributions, and~~ outflows and satisfy the recognition criteria set out in Section 7 are reported on the Statement of Financial Position. Net financial position can be a positive or negative residual amount. Ownership contributions and ownership distributions are reported in other financial statements included in GPFRs.

Ownership Contributions and Ownership Distributions

Definitions

- 6.3 Ownership contributions are inflows of resources to an entity, contributed by external parties that establish or increase an interest in the net assets of the entity.
- 6.4 Ownership distributions are outflows of resources from the entity, distributed to external parties that return or reduce an interest in the net assets of the entity.
- 6.5 It is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expenses, deferred inflows and deferred outflows. In addition to the injections of resources and dividend payments that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities for no consideration. Where such transfers satisfy the definitions of ownership contributions or ownership distributions they will be accounted for as such.

Proposed revision to 6.5 to delete the second sentence

It is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expenses, deferred inflows and deferred outflows. ~~In addition to the injections of resources and dividend payments that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between public sector entities for no consideration.~~

- 6.6 Ownership interests may arise on the creation of an entity when another entity contributes resources to provide the new entity with the capacity to commence operational activities. In the public sector, contributions to, and distributions from, entities are sometimes linked to the restructuring of government and will take the form of transfers of assets and liabilities rather than cash transactions. Ownership interests may take different forms, which may not be evidenced by an equity instrument.
- 6.7 Ownership contributions give a right to a return or increased return to owners, and may take the form of an initial injection of resources at the creation of an entity or a subsequent injection of

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resources, including injections in the event of the entity being restructured. The return to owners may be either a) a return on investment; b) a return of investment; or, c) in the event of the entity being wound up or restructured, a return of any net assets.

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7. Recognition

Recognition Criteria and their Relationship to Disclosure

- 7.1 Recognition is the process of incorporating in the appropriate financial statement an item that meets the definition of an element and can be measured in a way that meets the QCs. Recognition is a distinct stage in the accounting process. Therefore the definitions of the elements do not include recognition criteria. Recognition involves an assessment of existence uncertainty and measurement uncertainty. The conditions that give rise to uncertainty can change. Therefore it is important that uncertainty is assessed at each reporting date.
- 7.2 The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However disclosure can provide information on items that meet many, but not all the essential characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that is sufficiently representationally faithful to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting.

Existence Uncertainty

- 7.3 Determining whether the definition of an element has been satisfied requires judgment. Although the occurrence of a transaction is not necessary in order for an element to exist, transactions are the most common basis for recognizing and derecognizing items as elements. For example, the acquisition of medical equipment normally provides sufficient information to justify the recognition of an asset; similarly an employee providing services in accordance with a contract of employment gives rise to a liability and an expense of the employer. In other cases, it may be more difficult to determine whether an economic event creates an item that meets the definition of an element, because entities operate in uncertain environments.
- 7.4 Uncertainty is addressed by assessing the available evidence in order to make a neutral judgment about whether an element exists, taking into account all available facts and circumstances at the reporting date. 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. Preparers should review and assess all available evidence in determining whether sufficient evidence exists that an element should be recognized initially, whether that element continues to qualify for recognition (see paragraph 7.7), or whether there has been a change to an existing element.

Measurement Uncertainty

- 7.5 In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item satisfies the QCs including that it is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement basis is considered in the ED, *Conceptual Framework for General*

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Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements (CF–ED3).

- 7.6 There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates; and whether additional evidence is available about economic circumstances that existed at the reporting date.

Derecognition

- 7.7 Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an item that has been previously recognized from the financial statements. In evaluating existence uncertainty the same criteria are used for derecognition as at initial recognition.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Section 1: Introduction

BC1. When the IPSASB initiated Phase 2 of the Framework project, the IPSASB decided that the initial focus should be on the financial statements. Respondents to Conceptual Framework, Consultation Paper, *Elements and Recognition in Financial Statements* (CF–CP2) questioned why the IPSASB was only addressing elements for the financial statements in this phase of the Framework and suggested that IPSASB should also develop elements for economic phenomena in the “more comprehensive” areas of financial reporting outside the financial statements, as outlined in Phase 1 of the Framework. The IPSASB acknowledged the merits of these views and agrees that there is a need to develop such elements in the future. The IPSASB, however, decided that in order to put its future standard-setting activities for the financial statements on a sound and transparent footing it is important to deal firstly with the development of elements for the financial statements.

Elements

BC2. As a result of the nature of activities undertaken in the public sector, the IPSASB formed a view that a focus on the activities of the current reporting period~~year-activities~~ of a public sector entity is important in providing information for the users of financial statements and thereby in achieving the objectives of financial reporting. In order to distinguish between those transactions that relate to the reporting period and those that relate to a specified future period, the IPSASB concluded that those non-exchange transactions that are specified for use in a different reporting period should be shown as separate elements, described as deferred inflows and deferred outflows. The introduction of these separate elements has led to the need to distinguish between net assets which is the difference between assets and liabilities, and net financial position which is assets plus deferred outflows less liabilities and deferred inflows.

Section 2: Assets

A Resource

BC3. In the public sector, assets are a resource with the ability to provide services or potential or economic benefits. The inflow of resources to an entity contributes to the operating capacity of the entity and therefore its ability to provide services in the future. In stating in paragraph 2.2 that physical form is not a necessary condition of an asset, the IPSASB acknowledged that many assets, such as buildings, equipment and inventories are tangible, while others, such as current rights are intangible. Financial assets, such as bonds and derivatives are a further category of assets that do not have physical form.

BC4. The IPSASB recognized that other rights to benefits may not be directly associated with a particular tangible, intangible or financial resource. An example is 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

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specified by the entity. One or more public sector entities may also share in the benefits under a joint venture arrangement with another entity.

BC5. The IPSASB then considered whether a resource arises from the following arrangements:

- Unconditional rights.
- Executory contracts.

Unconditional Rights

BC6. The unconditional rights of external parties typically result from contracts or other binding arrangements that require provision of resources to the entity in the future. The IPSASB noted that there can be a large number of such rights and concluded that such unconditional promises 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 identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue.

Proposed revised BC6

The unconditional rights of external parties typically result from contracts or other binding arrangements that require provision of resources to the entity in the future. The IPSASB noted that there can be a large number of such rights and concluded that such unconditional ~~promises-rights that represent service potential or economic benefits that are controlled by the entity 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.~~ Whether such assets qualify for recognition will be dependent on whether recognition criteria have been satisfied. The recognition criteria are likely to be met where such rights have been acquired in an exchange transaction or have an identifiable value in an open, active and orderly market. Whether they are met in other circumstances will involve consideration of available evidence and the exercise of judgement. ~~The identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue.~~

Executory Contracts

BC7. Executory contracts are binding arrangements, where there is an unconditional promise to receive benefits and an equal promise to transfer resources to the counterparty in the future. Public sector entities are likely to engage in a large number of such arrangements. The IPSASB acknowledged the view that such arrangements may give rise to both assets and liabilities, as the promise to receive benefits is likely to have value and the promise to transfer benefits involves a present obligation to sacrifice resources, which the entity has no realistic alternative to avoid. The IPSASB also acknowledged the view that recognizing assets and liabilities from executory contracts would involve the inclusion of potentially very large offsetting amounts in the statement of financial position and the statement of financial performance and that this may conflict with the QC of understandability. ~~The IPSASB therefore concluded that determining whether the rights and obligations related to executory contracts should be recognized as elements is a standards-level issue. Whether assets and liabilities arise from conditional and unconditional rights and obligations~~

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in executory contracts will be determined by an assessment of whether those rights and obligations satisfy the definitions and recognition criteria identified in this Conceptual Framework. Mechanisms for presentation in financial statements of any elements arising from executory contracts that best satisfies the QCs will be considered at standards level.

Service Potential and Economic Benefits

BC8. The term “service potential” has been used to identify the capacity of an asset to provide ~~goods and~~ services in accordance with an entity’s objectives. The term “economic benefits” has been used to reflect the ability of an asset to generate net cash inflows. Some argue that economic benefits includes service potential, others argue that service potential includes economic benefits, and still others consider that the terms can be used interchangeably. The IPSASB considered whether in the context of the substance of an asset the definition should include a reference to both service potential and economic benefits. The IPSASB acknowledged the view that economic benefits includes service potential and also considered the converse view that because the primary objective of public sector entities is the delivery of ~~goods and~~ services, generally in non-exchange transactions, that service potential should be separately identified. The IPSASB noted that many respondents to CF–CP2 supported a specific reference to service potential on the grounds noted above.

BC9. The IPSASB therefore concluded that because the primary objective of most public sector entities is to deliver ~~goods and~~ services, but also in acknowledgment of the fact that public sector entities may carry out activities with the sole objective of generating net cash inflows, the definition of an asset should include both the terms service potential and economic benefits.

An Entity Presently Controls

BC10. Control entails (a) the ability of an entity to use the asset’s benefits in the form of service potential or economic benefits flowing from the resource, and (b) the ability to direct other parties on the nature and manner of use of the benefits embodied in the resource.

BC11. The IPSASB considered whether “control” is an essential characteristic in the definition of an asset or whether other indicators such as (a) legal ownership, (b) the ability to allow access to or, conversely, to restrict or deny the access of external parties to the resource or benefits, (c) the means to ensure that the resources are used to achieve its objectives, and (d) the existence of enforceable rights to service potential or economic benefits arising from a resource, are essential characteristics of an asset that should be included in the definition. The IPSASB acknowledged the views of those who argue that control may be difficult to apply in some cases because it requires judgment to assess whether control exists. In addition, control can be erroneously applied to a resource in its entirety and not to the individual benefits that accrue from the resource. However, notwithstanding such difficulties, the IPSASB concluded that control is an essential characteristic of an asset because the presence of control facilitates the association of an asset with a specific entity, particularly in the public sector environment.

BC12. Legal ownership of the underlying resource, such as a property or item of equipment, is one method of accessing the benefits provided by an asset. However, rights to benefits may exist

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without legal ownership of the underlying resource. For example, the rights to the benefits through the holding and use of leased property are accessed without legal ownership of the leased asset itself. Therefore, legal ownership is not an essential characteristic of the definition of an asset. Legal ownership is, however, an indicator of control.

- BC13. The right to access a resource may give an entity the ability to determine whether to (a) directly use the resource's service potential to provide services to beneficiaries, (b) exchange the benefits for another asset, such as cash, or (c) use the asset in any of the other ways that may provide benefits. While it might be questionable whether a resource that cannot be used to meet an entity's objectives gives rise to an asset, it is possible that such a resource could be exchanged for an alternative and more appropriate resource.
- BC14. While access to a resource is crucial there are resources to which an entity has access which do not give rise to assets, such as air. Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource. For example, (a) an entity might decide whether to set an entrance fee to a museum, and (b) government may control a natural resource under its land to which it can restrict the access of others. Legally enforceable claims to specific benefits such as right of road access or to explore land for mineral deposits could represent an asset to the holder. However an entity may be able to access the benefits associated with a resource in ways other than legal rights. For example, an entity may be able to ensure continuing access to specific rights by imposing effective economic or social sanctions on other parties.
- BC15. The IPSASB took the view that the factors identified in paragraphs BC13 and BC14 are likely to be persuasive indicators of the existence of control rather than essential characteristics. For example, the inability of an entity to restrict or deny access of some external parties to a resource may question whether the resource constitutes an asset of the entity.
- BC16. The IPSASB examined whether the economic ownership approach is a viable alternative to the control approach. The economic ownership approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity. Some respondents to CF-CP2, in supporting the control approach, commented on the complexity of the economic ownership approach. The IPSASB concluded that the economic ownership approach is subjective and difficult to operate and therefore rejected this approach. ~~The IPSASB then considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The IPSASB decided not to include such an indicator of control, because it is not compatible with the control approach.~~

Proposed additional paragraph

(Final two sentences of BC16 are included as first sentence of this paragraph as follows:

The IPSASB ~~then~~ considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The IPSASB decided not to include such an indicator of control, because it is not compatible with the control approach. The control

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approach focuses on the power of the entity to direct how the resource is used so as to benefit from the service potential or economic benefits embodied in the resource. The risks and rewards approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity and the related risks. Consideration of the risks and rewards associated with particular transactions and events, and which party to any transaction or event bears the majority of those risks and rewards may be relevant and useful in identifying the nature of the asset controlled by parties to the arrangement and determining how to quantify and associate the economic rights and obligations with particular parties. However, it is not of itself an indicator of which party controls an asset which operates to provide services to other parties, particularly when many of those services are provided in non-exchange transactions. In these cases, identifying which party bears the majority of the "risks" or receives the majority of the "rewards" associated with a resource is not necessarily an indicator of which party has the capacity to direct how the resource is used so as to meet its service delivery objectives. In addition, given the range and nature of commercial and social risks and rewards that are associated with many resources of public sector entities, it is not clear how the various risks and rewards can be weighed and aggregated to provide a useful indicator of which party bears the majority of those risks and rewards.

Past Event

- BC17. Some argue that identification of a past event is an essential characteristic of an asset. Others take the view that the identification of a past transaction or event is of less significance and should not therefore be an essential characteristic of an asset. They consider that such a requirement places undue emphasis on identifying the past event that gave rise to an asset. Such a focus may be a distraction and lead to debates about which event is the triggering event instead of focusing on whether the rights to benefits exist at the reporting date. Those who take this view consider that the essential characteristic should be the existence of a present resource. Some may accept that a past transaction might provide useful supporting evidence of the existence of a present resource.
- BC18. Many respondents to CF–CP2 took the view that a past event should be an essential characteristic of the definition of an asset. The IPSASB agreed with these respondents. In particular, the IPSASB considered that the complex nature of many public sector programs and activities means that there are a number of points at which a present resource might arise and therefore identification of the appropriate past event is crucial in identifying whether an asset exists.
- BC19. As highlighted in the Preface to the Conceptual Framework ~~Key Characteristics~~ the powers and rights of government are particularly significant in the recognition of assets. Assets may be created in non-exchange transactions, and by virtue of the exercise of sovereign powers. The power to tax and issue licenses, and other powers to access or to deny or restrict access to the benefits embodied in intangible resources like the electromagnetic spectrum are examples of powers that private sector entities do not have. Given the significant powers that accrue to sovereign governments, and, in certain circumstances, other public sector entities, it is often difficult to determine when such powers give rise to a right that is a present resource and asset of the entity.

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BC20. A government's power to establish a right to levy a tax or fee, for example, often begins a sequence of events that ultimately results in the flow of economic benefits to the government. The IPSASB considered two views of when an asset arises from the powers and rights of government. The first view is that the government has an inherent power to tax at every reporting date and therefore that the general ability to levy taxes or fees is an asset. Proponents of this view accept that such an asset is unlikely to be capable of faithfully representative measurement, but argue that this should not deflect from the view that government has a perpetual asset. The countervailing view is that the power to levy taxes and fees must be converted into a right by legal means and that such a right must be exercised or exercisable in order for an asset to come into existence. Many respondents to CF-CP2 supported this latter view. The IPSASB agreed with these respondents. In particular, the IPSASB considered that a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits.

Section 3: Liabilities

A Present Obligation

BC21. In considering when obligations are present obligations the IPSASB accepted that a legal obligation gives rise to a present obligation. What is binding may vary between jurisdictions but there is usually general agreement that those obligations that are recognized in law in a jurisdiction give rise to a present obligation. In some jurisdictions public sector entities are not permitted to enter into certain legal arrangements, but there are equivalent mechanisms. Such mechanisms are considered legally binding. The IPSASB then considered how to classify other obligations. The IPSASB noted that "constructive obligations" is a term embedded in standard setting literature globally and has been used in IPSASs. However, it has proved difficult to interpret and apply in a public sector context. Therefore, the IPSASB considered alternative terminology, for example the term "a social or moral duty or requirement." The IPSASB was concerned that the term "social" might be confused with political values and that the term "moral obligations" risks a perception that standard setters and preparers are arbiters of morality. The IPSASB therefore decided that making a distinction between legal and non-legal binding obligations was the most straightforward and understandable approach. Paragraph BC31 discusses non-legal binding obligations.

Conditional and Unconditional Obligations

BC22. An unconditional obligation is one that stands on its own, independent of future events. A conditional obligation relies on the possible occurrence of a future event. The IPSASB concluded that 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. The identification of circumstances where conditional obligations may give rise to liabilities is a standards-level issue.

Proposed revised paragraph BC 22

An unconditional obligation is one that stands on its own, independent of future events. A conditional obligation relies on the possible occurrence of a future event- which may or may not be under the control of the reporting entity. The IPSASB concluded that ~~distinguishing between conditional and~~

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~~unconditional obligations is not useful for the purpose of defining a liability because~~ it is possible for conditional obligations to give rise to liabilities as defined in this Conceptual Framework. Determining whether a conditional obligation satisfies the definition of a liability will involve consideration of the nature of the obligation and the circumstances in which it has arisen. Given the complexity of public sector programs and activities, whether the past event (or events) which has resulted in the entity having no realistic alternative to avoid an outflow of service potential or economic benefits has occurred may not always be clear. Guidance on whether. ~~The identification of circumstances where~~ conditional obligations that exist in particular arrangements or circumstances may give rise to liabilities consistent with the definitions identified in this Conceptual Framework is a standards-level issue.

Proposed additional paragraph

A variety of terms are used to describe present obligations that may arise from, or exist in conjunction with, conditional obligations in particular circumstances. Amongst these are stand ready-obligations and performance obligations. The characteristics of these obligations are outlined below.

Stand-Ready Obligations

- BC23. 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). The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits. CF-CP2 included a discussion of stand-ready obligations. Many respondents indicated that the distinction between a conditional obligation and a stand-ready obligation is ambiguous.
- BC24. The IPSASB formed a view that the notion of a stand-ready obligation is workable and valuable in certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties. In such circumstances there may be an identifiable past event and an outflow of resources from the entity, although the exact identity of the party to whom settlement will be made will not generally be known. However, 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 did not wish this to occur, and considered that the issue of liabilities arising from social benefits should be considered at the standards level. On balance, the IPSASB decided that use of the term stand-ready obligations in the Framework would not provide a sound basis for future standard setting.

Proposed revised paragraph BC24

The ~~term~~IPSASB formed a view that the notion of a stand-ready obligation is used to describe~~workable and valuable in a liability that may arise in~~ certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties where the entity has an unconditional obligation to stand ready to transfer the resources if the specified future event occurs. In such circumstances there may be an identifiable

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past event and an outflow of resources from the entity, although the exact identity of the party to whom settlement will be made will not generally be known. The term is not widely used~~However, the notion of a stand-ready obligation does not work well~~ in a public sector non-exchange context where ~~(c) 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~~the nature and extent of a public sector entity's obligation to transfer resources to another entity in particular circumstances that may occur in the future include for example as a potential lender of last resort and in support of programs that provide a wide range of ~~ing provision of~~ social benefits.³ The existence of an obligation to transfer resources to another party in these circumstances may be dependent on ongoing satisfaction of a number of conditions of differing significance and nature that are themselves subject to change by the entity or the government. ~~→~~The IPSASB considers that the circumstances in which liabilities arise as a consequence of the obligation of a public sector entity to transfer resources to other parties consistent with the terms of programs to, for example, provide particular social benefits, and how such liabilities should be described and accounted for, did not wish this to occur, and considered that the issue of liabilities arising from social benefits should be considered at the standards level, consistent with the principles established in this Conceptual Framework. ~~On balance, the IPSASB decided that use of the term stand-ready obligations in the Framework would not provide a sound basis for future standard setting.~~

Performance Obligations

- BC25. A performance obligation is an obligation in a contract or other binding arrangement between a public sector entity and an external party to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other agreement and may vary between jurisdictions. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation on a public sector entity that is additional to the terms of an agreement or contract.
- BC26. A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded it is not necessary to identify a specific external party but it is important to analyze such obligations in order to determine whether they include a requirement to sacrifice resources. Obligations that require an entity to provide access to a resource, but do not entail an outflow of resources are not performance obligations and do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. ~~The IPSASB concluded that, because p~~Performance obligations are often normally conditional obligations. ~~and because the issues in D~~determining whether such obligations give rise to liabilities is 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.~~

Past Event

- BC27. The IPSASB considered whether the definition of a liability should require the existence of a past event. Some contend that identification of a past event is not an essential characteristic of a liability

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and that there is consequently no need for the definition of a liability to include a reference to a past event. These commentators argue that there may be many possible past events and that establishing the key past event is likely to be arbitrary. They suggest that the existence of a past event is irrelevant in determining whether a present obligation exists at the reporting date.

- BC28. The IPSASB acknowledged this view, but also noted that many respondents to CF–CP2 considered it necessary to include a specific reference to a past event. The IPSASB agreed with the view that the complexity 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 that gives rise to a liability is critical in determining when public sector liabilities should be recognized.

~~Little or~~ No Realistic Alternative to Avoid

Proposed new paragraph – to explain revision to “little or no” realistic alternative to avoid

The Conceptual Framework Exposure Draft 2, Elements and Recognition in Financial Statements (CF–ED2) defined 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”. Some respondents to CF-ED2 were concerned that the phrase “little or no realistic alternative to avoid” was open to different interpretations, including that it established a threshold test of virtual certainty in determining whether a present obligation exists – this was not the intent of the IPSASB. Some respondents proposed removal of the words “little or” from this phrase as a means to reduce the potential for misinterpretation. The Board was persuaded by these views and has revised the definition accordingly.

- BC29. Interpreting the term “~~little or~~ no realistic alternative to avoid” in the context of a liability is a crucial issue in public sector financial reporting. In particular the IPSASB considered the issue of whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. The IPSASB acknowledged that determining when a present obligation arises in a public sector context is complex and, in some cases, could be considered arbitrary. In the context of programs to deliver social benefits there are a number of stages at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and, over time, within the same jurisdiction. For example, different age cohorts are likely to have different expectations about the likelihood of receiving benefits under a social assistance program. Such variation does not promote consistency and can mean that information reported on liabilities does not meet the QC of understandability. This view suggests that an essential characteristic of a liability should be that it is enforceable at the reporting date by legal or equivalent means.
- BC30. A converse view is that where a government has a record of honoring obligations, failing to recognize them leads to an understatement of that government’s liabilities. For example, if a government has a consistent record of meeting publicly-announced obligations to provide financial support to the victims of natural disasters, a failure to treat such obligations as liabilities is not in accordance with the objectives of financial reporting and, in particular, does not meet the QCs of faithful representation and relevance.

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BC31. On balance, the IPSASB agreed with those who argue that, in the public sector, liabilities can arise from non-legal binding obligations. However, the IPSASB acknowledged the views of those who are skeptical that liabilities can arise from other than legally enforceable obligations. The IPSASB considers that a non-legal binding obligation which gives rise to a liability has the following attributes:

- (a) 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;
- (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.

BC32. The wide variation in the nature of public sector programs and operations and the different political and economic circumstances of jurisdictions globally means that categorical assertions of the circumstances under which non-legal obligations become binding and give rise to present obligations are inappropriate. However, the IPSASB concluded that present obligations are extremely unlikely to arise from election promises. This is because electoral pledges will very rarely (a) create a valid expectation on the part of external parties that the entity will honor the pledge, and (b) create an obligation which the entity has no realistic alternative but to settle. Therefore the Framework includes a presumption that liabilities do not arise from electoral pledges or promises. However, it is accepted that in practice a government with a large majority will be better placed to enact intended legislation than a minority government and that there may be infrequent circumstances where a government announcement in circumstances like those in BC 30, might give rise to a liability. 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.

Sovereign Power to Avoid Obligations

BC33. The sovereign power to make, amend and repeal legal provisions is a key characteristic of governments. Sovereign power potentially allows governments to repudiate obligations, arising from both exchange and non-exchange transactions. Although in a global environment, such a power may be constrained by practical considerations, there are a large number of examples of governments defaulting on financial obligations over the last century. The IPSASB considered the impact of sovereign power on the definition of a liability. The IPSASB concluded that failing to recognize obligations that otherwise meet the definition of a liability on the grounds that sovereign power enables a government to walk away from such obligations would be contrary to the objectives of financial reporting and, in particular, may conflict with the QCs of relevance and faithful representation. Many respondents to CF-CP2 supported this position. The IPSASB therefore concluded that the determination of whether a liability exists should be by reference to the legal position at the reporting date.

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Proposed Additional Paragraph

Commitments

Commitment accounting procedures are a central component of budgetary control for public sector entities in many jurisdictions. They are intended to assure that budgetary funds are available to meet the government's or other public sector entity's responsibility for a possible future liability including intended or outstanding purchase orders and contracts or where the conditions for future transfers of funds have not yet been satisfied. Commitments which satisfy the definition of a liability and the recognition criteria will be recognized in financial statements, in other cases information about them may be communicated in notes to the financial statements or other reports included in GPFRS.

Section 4: Revenue and Expenses

Nature of Revenue and Expenses

- BC34. One approach to defining revenue and expenses is to take the view that they can be derived from changes in assets and liabilities. The IPSASB acknowledged that this approach has been adopted by many standard-setters globally. Another view is that revenue and expenses are flows that relate to the current period. There was considerable support for both positions by respondents to CF–CP2.
- BC35. The IPSASB formed a view that a focus on the activities of the current year—reporting period activities of a public sector entity is important in providing information for the users of financial statements and thereby in achieving the objectives of financial reporting. Including flows as revenue and expenses in one reporting period where there are stipulation ~~timing restrictions~~ specifying their use in future periods would be misleading. This led to the conclusion that, in precisely defined circumstances, certain flows do not meet the definition of revenue and expenses, but rather are deferred inflows and deferred outflows. The rationale for defining deferred inflows and deferred outflows as elements is further considered in BC40–BC43. The IPSASB took the 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.
- BC36. The IPSASB considered whether the definition of revenue should be the “net” or “gross” increase in “net” assets. The IPSASB recognized that a “gross” approach would create problems in areas such as the disposal of property, plant, and equipment where such a definition would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Therefore the IPSASB considered that the gross approach is not ideal. The IPSASB acknowledged that standards may require the gross presentation of the relevant flows on the face of the financial statements in certain circumstances where such presentation is considered to better achieve the objectives of financial reporting and the QCs of information included in GPFRs. This may occur, in respect of the sale of inventory, where public sector entities provide services to constituents on a “fee-for-service” basis or where the provision of services by a public sector entity is fully or partially subsidized.

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- BC37. Some standard setters have structured their definitions of elements so that, for example, inflows and outflows arising from transactions and events relating to activities in the ordinary course of operations are distinguished from inflows and outflows that relate to activities outside the ordinary course of operations. An example of this approach is the definition of revenue, expenses, gains and losses as separate elements, where revenue and expenses relate to entity's "ongoing major or central operations", and gains and losses relate to all other transactions, events and circumstances giving rise to increases or decreases in net assets.⁵
- BC38. The IPSASB acknowledged that distinguishing transactions and events related to the ordinary course of operations from transactions and events outside the ordinary course of operations can provide useful information for users of the financial statements. It may be useful therefore to adopt the terms gains and losses to reflect inflows and outflows from transactions and events outside the ordinary course of operations. However, the IPSASB took the view that, conceptually, 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. The IPSASB also noted that many respondents to CF-CP2 shared this view. Therefore the IPSASB decided not to define gains and losses as separate elements.
- BC39. As discussed in more detail in BC48-BC50, the IPSASB considered whether, and, if so, under what circumstances, ownership interests exist in the public sector. In the context of revenue and expenses the IPSASB considered whether transactions related to ownership interests should be excluded from the definitions of revenue and expenses. Because transactions with owners, in their role as owners, are different in substance to other inflows and outflows of resources the IPSASB concluded that it is necessary to distinguish flows relating to owners from revenue and expenses. Therefore ownership contributions and ownership distributions are defined as elements.

Section 5: Deferred Inflows and Deferred Outflows

Nature of Deferred Inflows and Deferred Outflows

- BC40. ~~As identified in Key Characteristics aA~~ highly important characteristic of the public sector is the prevalence of non-exchange transactions. Such transactions include (a) involuntary transfers of resources, notably taxation, and grants, which may be received prior to the period in which they are intended to finance the provision of ~~goods and~~ services, and (b) transfers of resources with timing ~~stipulations restrictions~~ or expectations and no performance or return obligations. 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. There are a number of ways in which user needs can be satisfied. The IPSASB identified and considered:

⁵ See for example Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 6: Elements of Financial Statements.

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- Broadening the asset and liability definitions to include deferred inflows and deferred outflows⁶;
- A presentational approach along the lines of “other comprehensive income” (OCI) in International Financial Reporting Standards (IFRSs) would have to be developed and adopted;
- Dealing with deferred inflows and deferred outflows through note disclosure or other forms of communication; and
- Defining deferred inflows and deferred outflows as separate elements.

BC41. The IPSASB considered that broadening the definition of an asset and liability distorts the essence of these elements, because, in the case of assets, it would lead to including resources that an entity does not, in substance, control and in the case of liabilities obligations that are not present obligations. Such an approach would not be easily understandable to many users and may conflict with the QC of faithful representation. A sub-classification of net assets would only partially compensate for this, because it relegates the results of potentially major flows to a sub-category of the residual amount.

BC42. The use of a presentational approach would have to be considered on an issue-by-issue basis at the standards level, which might lead to inconsistency. The IPSASB considered that dealing with deferred inflows and deferred outflows through note disclosure is contrary to the principle that disclosure is not a substitute for recognition, which is stated in Section 7.

BC43. The IPSASB therefore concluded that the most transparent approach is to define deferred inflows and deferred outflows as separate elements. In coming to this view the IPSASB considered it likely that, if separate elements are not defined, the treatment of flows that are considered applicable to future reporting periods is likely to be addressed on an issue-by-issue basis at the standards level, using ambiguous and potentially conflicting principles.

Proposed additional paragraph to acknowledge that IPSASB has considered identification of deferred inflows and deferred outflows as elements of the statement of financial performance

The IPSASB also considered whether deferred inflows and deferred outflows should be identified as elements of the statement of financial performance to overcome concerns identified in BC 42 and BC 43. The statement of financial performance could then report a surplus (deficit) before deferred items (Revenue – Expenses) and after deferred items (Revenues – Expenses + (deferred outflows – deferred inflows)). However, this approach was rejected because of concerns that it would require recycling of deferred inflows and outflows to revenues and expenses of the time stipulated period of their use, and this would unnecessarily complicate and undermine the understandability of the financial statements.

⁶ This approach could be supplemented by sub-classifying net assets/net liabilities to include information about deferred inflows and deferred outflows.

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**Specified Future Period and Non-exchange Transactions as an Essential Characteristic of
Deferred Inflows and Deferred Outflows**

- BC44. The IPSASB acknowledged reservations about defining deferred inflows and deferred outflows (for example, that such elements might be used inappropriately or that usage of such elements would be determined at the standards level). It has been suggested that broad definitions of deferred outflows could be used to spread certain costs inappropriately (for example, redundancy costs) over several reporting periods, based on an assertion that these costs will produce savings and therefore a reduction of outflows of resources over a number of subsequent reporting periods.
- BC45. Such concerns led the IPSASB to narrow the application of deferred inflows and outflows to public sector circumstances. Deferred inflows and deferred outflows are therefore restricted to certain non-exchange transactions, because they do not meet the definition of revenue or expenses as they relate to a specified future reporting period, and they do not give rise to assets, liabilities, ownership contributions or ownership distributions. Based on this approach, a property tax levied and collected in one period that is required by law to be spent in a specified future period would be reported as a deferred inflow. 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. Exchange transactions give rise to revenue, expenses, assets, liabilities, ownership contributions or ownership distributions in the period of the exchange and the IPSASB considered that it is therefore not appropriate to include these transactions in the definitions of deferred inflows or deferred outflows.
- BC46. Recognizing deferred inflows and deferred outflows is not the same as the matching concept used in earlier private sector frameworks. The IPSASB agreed that when the time ~~stipulation~~~~restriction~~ associated with a deferred inflow or deferred outflow comes to an end, the deferred inflow or outflow must be reassessed. A reduction in a deferred inflow would be recognized as revenue at that point and a reduction in a deferred outflow would be recognized as an expense at that point. The IPSASB noted that limiting the use of these elements to clearly specified circumstances is consistent with the objective of providing information to users about the impact of external ~~stipulations~~~~restrictions~~ on an entity's ability to use resources in a period.

**Section 6: Net Assets, Net Financial Position, Ownership Contributions, and
Ownership Distributions**

- BC47. The IPSASB's decision to propose the elements of deferred inflows and deferred outflows means that both net assets and net financial position have to be distinguished. Net assets is the difference between assets and liabilities before taking into account deferred inflows and deferred outflows. Net financial position is the aggregate of an entity's assets and deferred outflows less an entity's liabilities and deferred inflows at the reporting date. A positive net financial position represents the net resources available for providing goods or services in future periods. A 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

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expenses, or a combination of both. However, any interpretation of a negative net financial position would need to be made after consideration of such matters as whether net assets are positive and in the context of the longer run performance of the reporting entity.

- BC48. The IPSASB considered whether net financial position is a residual amount, a residual interest or an ownership interest. The IPSASB acknowledged the view that 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 is similar to an ownership interest. The IPSASB also accepted that the terms residual interest and ownership interest have been used in some jurisdictions to characterize third parties' interests in net assets. The term residual interest indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations. The term ownership interest is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some argue that this emphasizes the democratic accountability of governments.
- BC49. The IPSASB took the view that the term residual interest may suggest that service recipients and resource providers have a financial interest in the public sector entity. Similarly the term ownership interest suggests that citizens are entitled to distributions from the public sector entity and to distributions of net assets in the event of the entity being wound up. The IPSASB therefore concluded that the terms residual interest and ownership interest can be misunderstood or misinterpreted, and that net financial position is a residual amount that should not be defined. Treating net financial position in such a way is more straightforward and understandable.
- BC50. However, the IPSASB acknowledged that part of net financial position can in certain circumstances be an ownership interest. Such instances may be evidenced by the entity having a formal equity structure, but there may be instances where an entity is established without a formal equity structure, with a view to sale for operation as a commercial enterprise or by a private sector not-for-profit entity. An ownership interest can also arise from the restructuring of government or public sector entities, such as when a new government department is created. The IPSASB therefore considered whether "ownership interests" should be defined as an element. The IPSASB acknowledged the view that identifying the resources (or claims on future resources) attributable to owners provides information useful for accountability and decision-making purposes. The IPSASB concluded that such interests can be identified through the sub-classification of net financial position. However, the IPSASB also concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expenses, deferred inflows and deferred outflows. Therefore ownership contributions and ownership distributions are defined as elements. Detailed guidance to support the assessment of whether certain inflows and outflows of resources satisfy the definitions of ownership contributions and ownership distributions can be developed at standards level as appropriate.

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Section 7: Recognition

Recognition and its Relationship to Disclosure

- BC51. The IPSASB considered whether recognition criteria should be integrated in definitions. The IPSASB acknowledged the view that the inclusion of recognition criteria in definitions enables preparers to consider all the factors that must be taken into account in evaluating whether an item of information is recognized in the financial statements. However, the IPSASB took the view that recognition is a distinct phase in the financial reporting process. The IPSASB also noted that few respondents to CF–CP2 supported the integration of recognition criteria in element definitions. After considering this feedback, the IPSASB concluded that element definitions should not include recognition criteria.

Assessing Recognition

In determining whether an element should be recognized there are two types of uncertainty that need to be considered. The first is existence uncertainty—whether an item meets the definition of an element? The second is to consider measurement uncertainty—whether the element can be measured in a representationally faithful manner? The second aspect is only considered if it is determined that the definition of an element has been met.

Existence Uncertainty

- BC52. The IPSASB also considered whether, in dealing with existence uncertainty, (a) standardized threshold criteria should be adopted, or (b) whether all available evidence should be used to make neutral judgements about an element's existence.
- BC53. Standardized evidence thresholds filter items that have a low probability of resulting in an inflow or outflow of service potential or economic benefits. Such items may have high monetary values and therefore lead to the recognition of elements with significant amounts, even though the probability of existence may be low. Some consider that it would be more appropriate to disclose such items rather than recognize them. Threshold criteria are also justified on cost grounds, because only after a preparer has formed an initial judgement whether those threshold criteria have been met does the preparer consider how that element should be measured.
- BC54. The IPSASB formed a view that, while the adoption of thresholds for recognition purposes may produce information that is understandable, such an approach risks omitting information that is relevant and faithfully representative. Approaches to existence uncertainty based on thresholds may also not meet the QC of comparability, because similar information items may be treated in different ways dependent upon relatively small differences in the probability of a flow of benefits. The IPSASB therefore concluded that, on balance, 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. Guidance may be provided at standards level on dealing with circumstances in which there is significant uncertainty about whether an element exists in particular circumstances, and therefore would satisfy the criteria for recognition.

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- BC55. The IPSASB explored whether existence uncertainty is specific to certain components of assets and liabilities, in particular for assets whether an entity controls a resource or a right to a resource and for liabilities whether an entity has ~~little or~~ no realistic alternative to avoid an outflow of service potential or economic benefits. The rationale for this approach is that these are the essential characteristics of an asset and a liability where existence uncertainty is likely to arise.
- BC56. The IPSASB took the view that, in the context of assets and liabilities, existence uncertainty relates to more than just these characteristics. Existence uncertainty might also relate to the existence of a present obligation and a past event for liabilities and, in particular, whether a present resource that generates future economic benefits or service potential exists rather than a future resource or future right to a resource in the context of an asset.
- BC57. The IPSASB also took the view that existence uncertainty is not restricted to just assets and liabilities. While changes in other elements are normally accompanied by changes in assets and liabilities, this may not always be the case. The IPSASB therefore rejected an approach whereby discussion of existence uncertainty is restricted to assets and liabilities.

Proposed additional paragraph to include the example of measurement uncertainty where the outcome is unknown

Measurement Uncertainty

A range of estimates and measurement techniques may be used to deal with uncertainty associated with the measurement of items that might be presented in the financial statements. In most cases, the application of these measurement and estimation techniques and the consideration of other relevant information about economic circumstances that exist at reporting date will result in a measurement that satisfies the QCs. However, in rare circumstances, such as some legal disputes for unspecified amounts of damages, it may be that no measure of an asset or a liability would result in a sufficiently faithful representation of that element for it to warrant recognition.

Derecognition

- BC58. The IPSASB considered the view that different criteria should be used for initial recognition and derecognition. Many of the respondents to CF–CP2 supported the use of the same criteria for derecognition as for initial recognition. The IPSASB concluded that adopting differential recognition criteria would conflict with the QC of consistency as it would lead to the recognition of items with different standards of evidence for their existence.

Alternative Views

Alternative View of Prof. Mariano D'Amore

- AV1. This AV does not question the rationale for recognizing deferred inflows and deferred outflows as elements in the financial statements of a public sector entity. Rather, it debates the treatment of deferred inflows and deferred outflows and their related increases and decreases. This member believes that the treatment proposed in the Exposure Draft (ED) substantially modifies the generally understood concepts of revenue and expenses as changes in net assets, and this may have a negative impact on the users' understanding of the entity's financial performance. This AV is based

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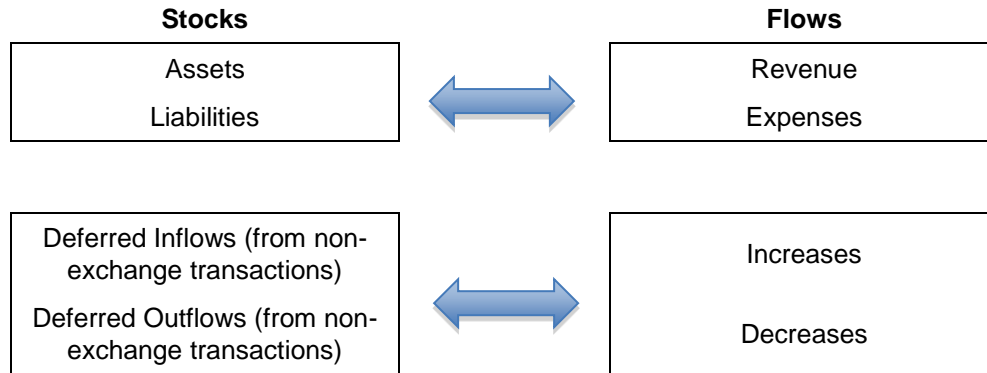
on the assumption that departure from these concepts is not a necessary consequence of the definition of deferred inflows and deferred outflows as separate elements, and that an alternative option may be considered in order to meet the objectives and qualitative characteristics of financial statements. Finally, this AV provides a discussion of the concept of net financial position, since, in this member's opinion, the ED does not give a satisfactory description of the difference between net assets and net financial position, or the relevance of the latter to meeting users' needs.

- AV2. This member believes that the treatment of deferred inflows and deferred outflows stated in the ED implies a misalignment between revenues and increases in net assets on one side, and expenses and decreases in net assets on the other. Based on the definitions given in the ED, a deferred inflow increases net assets in the year in which the inflow is received and subsequently deferred to future periods (in other words, an increase in deferred inflows is an increase in net assets in the current period). In the year in which a decrease in deferred inflows occurs, this is recognized as revenue, although it is not an increase in net assets in the current period. A deferred outflow decreases net assets in the year in which the outflow occurs and is subsequently deferred to future periods (in other words, an increase in deferred outflows is a decrease in net assets in the current period). In the year in which a decrease in deferred outflows occurs, this is recognized as an expense, although it is not a decrease in net assets in the current period. As a consequence, the difference between revenues and expenses (surplus or deficit for the year) is not intended to equal the change that has occurred in net assets in the reporting period. This member questions whether such a misalignment may mislead users, at least in some jurisdictions.
- AV3. In this member's opinion, the effects on the concept and display of financial performance which arise from the proposed treatment of deferred inflows and outflows, and from the new definition of revenue and expenses, are not fully explained in the ED. Indeed for the ED, revenue and expenses are the only two elements in the Statement of Financial Performance. These are used to aggregate and show under the same headings items which share the feature of being flows related to the reporting period, but which are dissimilar in some other relevant respects. Based on the definition provided in the ED, revenues include inflows which are changes in net assets occurring in the reporting period together with others which are solely movements in deferred inflows. Similarly, some of the expenses are outflows which change net assets in the reporting period while some others are simply movements in deferred outflows. All these flows together are balanced to measure the surplus or deficit for the year. This member thinks that such an approach has a negative effect on faithful representation and the ability of users to assess financial performance by considering its different components, i.e. the elements as defined in the ED.
- AV4. It is a generally understood concept that revenue and expenses are flows linked to changes in the stocks of assets and liabilities. So, in this AV, revenues are regarded as aggregating and displaying all, and solely, increases in net assets occurring in the reporting period other than contributions from owners. Similarly, expenses should aggregate and display decreases in net assets occurring in the reporting period other than distributions to owners. Deferred inflows and deferred outflows are still defined as elements in the Statement of Financial Position; thus, they are treated as "stocks" at the end of the reporting period. Increases and decreases in such stocks can be identified as related "flows" occurring in the period. Since deferred inflows and deferred outflows are defined as separate elements from assets and liabilities, increases and decreases in the former

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should be considered as separate elements from revenue and expenses in the Statement of Financial Performance. Visually (and setting aside ownership contributions/distributions):

Table 1: Elements



AV5. As the ED makes a distinction between net assets and net financial position, it should follow that changes in both these stocks be distinguished. Nevertheless, the ED only focuses on the entity's surplus or deficit for the year as the "primary indicator" of financial performance. In this member's opinion, change in net assets and surplus/deficit for the year are both relevant performance indicators for accountability and decision-making purposes. Since elements are the basic reference for recording, classifying and aggregating economic data, the approach of defining increases and decreases in deferred inflows/outflows as distinct elements is intended to keep items contributing to different indicators of financial performance separate. Given that how items are displayed is basically a matter of presentation, from a conceptual point of view the relationship between the elements affecting financial performance can be shown as follows:

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Table 2: Relationship between the Elements affecting Financial Performance

	Revenue
Minus	Expenses
Equals	Change in Net Assets
Minus	Increases in Deferred Inflows
Plus	Increases in Deferred Outflows
Plus	Decreases in Deferred Inflows
Minus	Decreases in Deferred Outflows
Equals	Surplus or deficit for the year

AV6. Net assets and net financial position differ only because of the deduction from net assets of deferred inflows and the addition of deferred outflows. Deferred inflows are the result of past increases in net assets; specifically, they can be regarded as the part of the net assets which is to be used by the entity under specified timing restrictions. Thus, it may be argued that deducting deferred inflows from net assets shows the net resources available to the entity with no definite timing restrictions. As for deferred outflows, their addition to net assets provides an indicator of the total net resources available to the entity or which have been provided to third parties for the delivery of future services. Taking into account the combined effects of deferred inflows and deferred outflows on the net financial position, the sense of this indicator seems to be unclear, as it may not include net assets which are still available to the entity (in the case of deferred inflows) while encompassing resources which are no longer under the entity's control (in the case of deferred outflows). Finally, in this member's opinion, net financial position does not substitute net assets nor is it the primary indicator for the assessment of the net resources available to the entity for the provision of services in the future. Disregarding ownership contributions/distributions, net financial position may however be understood as an accumulated surplus or deficit which gives information about the past capacity of an entity to finance the services it has provided through related revenues.

Alternative View of Ms. Jeanine Poggiolini

AV7. Due to the nature of the activities undertaken in the public sector, there is a high prevalence of non-exchange transactions, which are often significant in individual entities. In exchange transactions, the recognition of revenue and expenses is, in most instances, related to the performance by the parties to the transaction. Due to the inherent nature of non-exchange transactions, there is often no performance required by, or imposed on, the parties to the transaction. To ensure that users of the financial statements have relevant information for decision-making or accountability purposes, these types of transactions require specific consideration by the Board.

AV8. The ED identifies deferred inflows and deferred outflows as separate elements. These elements result from inflows and outflows in non-exchange transactions, where the flows relate to a future period. This member disagrees with the view that deferred inflows and deferred outflows should be

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identified and recognized as separate elements. Instead, these flows should be included in the definitions of revenues and expenses.

- AV9. From a revenue and deferred inflow perspective, when an entity demonstrates control over a resource, and the inflow is not an ownership contribution and no related obligation exists, then revenue should be recognized. Where an entity controls the underlying resource and has no related obligation, it has the ability to direct the nature and manner of use of the resulting economic benefits or service potential. As the entity has the ability to control the resource by deciding how, for what and when it can use the associated benefits, it should recognize revenue at that point. The opposite is true for expenses and deferred outflows. If an entity has an outflow of resources over which it has no further control, through, for example, the existence of rights, then an expense should be recognized. In this member's view, this position more appropriately demonstrates the resources for which the entity is accountable.
- AV10. In addition, the existence of other elements in the Framework is based on the occurrence of a past transaction or event. Deferred inflows and deferred outflows, and their subsequent recognition as revenues or expenses, however arise as a consequence of time or the passage of time. In this member's view, this is not a sound basis for delaying the recognition of revenues and expenses. One of the reasons for delaying the recognition of these revenues and expenses is so that they are used in the period stipulated by the transferor. However, 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 or was lost in earlier reporting periods.
- AV11. It is however acknowledged that, in certain instances, this approach may result in large surpluses or deficits being reflected in the statement of financial performance. This could be addressed through developing appropriate presentation and disclosure requirements at standards level which would provide relevant information to users of the financial statements. 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 a way so that a specific outcome is achieved for a specific group of transactions.

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Appendix 1A

The IASB Conceptual Framework (September 2010)

Elements and Recognition in Financial Statements

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities.

The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010)⁷. It explains:

- The underlying assumption that financial statements are prepared on a going concern basis.
- Financial statements portray the financial effects of transactions and other events by grouping them into broad classes, termed the elements, according to their economic characteristics.
- The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. Equity is the residual interest in the assets of the entity after deducting all its liabilities.
- The elements directly related to the measurement of performance in the income statement are income and expenses.
- Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition namely it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability.

⁷ The IASB has recently reactivated its Conceptual Framework project. Elements and Recognition is under consideration as part of that project.

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Appendix 1B

**Statistical Reporting Guidelines of the 1993 System of National Accounts
(updated 2008) and Other Guidance derived from it (ESA 95 and GFSM 2001)**

Flows and Stocks

The 1993 System of National Accounts (SNA) – as updated in 2008 (SNA 2008):

- Describes the flows and stocks that are recorded in the national economy, including the general government sector and other sectors of the economy. For Government Finance Statistics (GFS) the system explains that all data on units of the general government sector are either flows (mostly transactions) or stocks (assets, liabilities and net worth) before summarizing the accounting rules to record the stocks and flows.
- Covers concepts, definitions, classifications and accounting rules.
- The elements directly related to the measurement of performance in the income statement are revenue and expenses.
- Defines the assets and liabilities included in the system, provides a classification of types of assets and liabilities, and describes the content of each classification category.
- Defines revenue, provides a classification of types of revenue and the contents of each classification category.
- Defines expense and explains the classification between functional and economic expense and the contents of each category.

The GFSM 2001 and ESA 95 are consistent with the principles of the 1993 SNA. However, at a detailed level, some reporting differences may arise as a result of differences in purpose and specific data needs.

The GFSM 2001 and ESA 95 are currently under revision to bring them into line with the 2008 SNA.

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Extract of Draft minutes of IPSASB meeting June 2013**Conceptual Framework Elements and Recognition–Preliminary Analysis of Responses**

The IPSASB considered a collation and summary and preliminary staff analysis of the responses to the Conceptual Framework Exposure Draft (CF–ED2), *Elements and Recognition in Financial Statements*, issued in early November 2012 with a consultation period until April 30th 2013. As at May 15th 2013, 40 responses had been received. Members commented on the constructive and thought-provoking submissions. Members reflected on whether, in view of the significance of CF–ED2, a greater number of responses might have been received. The IPSASB noted that the United Nations (UN) response included 25 UN organizations and that some other responses consolidated a number of entities.

Specific Matter for Comment (SMC) 5-Deferred Inflows and Deferred Outflows

Members noted that the most controversial issue on which respondents had commented was the proposal to introduce deferred inflows and deferred outflows as elements. While there was some support for this proposal, the majority of those expressing a view opposed these elements. Staff reported one supporter questioned the rationale for restricting deferred inflows and deferred outflows to non-exchange transactions as did a respondent strongly opposed to deferred inflows and deferred outflows. 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.

Staff highlighted that respondents in favor of defining deferred inflows and deferred outflows as elements considered these elements are required in circumstances when it is inappropriate to recognize increases or decreases in net assets as revenue or expenses of the period and where the resulting balances do not meet the definition of either a liability or an asset. The IPSASB noted however there was not a consensus on how to address the issue of multi-year inflows or outflows subject to timing restrictions.

Staff summarised the views of respondents opposed to deferred inflows or deferred outflows as elements including:

- Concern that these proposals do not reflect economic reality, and redefine the existing global economic accounting framework;
- Concern about including elements based on timing stipulations, with a suggestion that a presentational approach to flows intended for use in more than one period would be better;
- Need for better clarification of the perceived problem the proposal is trying to solve, or more convincing justification of the merits of the proposed solution;
- Belief that the terms deferred inflows and deferred outflows are not well understood or used, making financial statements more complex and difficult to understand;
- Introduction of deferred inflows and deferred outflows as elements to deal with a limited number of transactions is disproportionate to the perceived benefits; and
- A view that deferred inflows and deferred outflows are based on an inappropriate revenue and expenses-led (R&E) approach, with a preference for an asset and liabilities-led (A&L) approach, which is considered to be less vulnerable to manipulation than an R&E approach.

A number of respondents supported the Alternative Views (AVs) of Professor Mariano D'Amore and Ms. Jeanine Poggiolini both of whom were invited by the Chairman to summarize their views to the Board.

Professor D'Amore explained that his AV did not deal with the rationale for recognizing deferred inflows or deferred outflows but debated the treatment of them as proposed in CF–ED2. He highlighted the effects of the introduction of deferred inflows and deferred outflows on the current definitions of revenue and expenses, the only elements in the statement of financial performance. The Professor pointed out that, under the proposals in CF–ED2, as revenue less expenses no longer equal increases in net assets in the current reporting period, then the surplus /deficit of the year is no longer intended to represent the change in net assets. The Professor questioned whether such departures from generally understood concepts are a necessary consequence of the recognition of deferred inflows and deferred outflows as elements, and questioned whether an alternative solution might be more appropriate. He noted that, under the proposals in CF–ED2, revenue less expenses equals change in net assets which is then adjusted for movements in deferred inflows and deferred outflows to arrive at the surplus or deficit for the year. The Professor expressed concern whether net financial position is either a substitute for net assets or the primary indicator for net resources available to the entity at the reporting date for the provision of services in the future. In the Professor's view CF–ED2 does not give a satisfactory description of the difference between net assets and net financial position, or the relevance of the latter in meeting users' needs. He also considered that the concept of surplus/deficit for the year as a net flow in net financial position is not fully explained in CF–ED2.

Ms. Poggiolini explained that she did not support deferred inflows and deferred outflows as separate elements because in her view these flows, which relate to the elapse of time, should be included in the definitions of revenues and expenses. If these flows are significant in relation to a reporting period—such as a large grant received in one period being spent in another period—then the impact on the surplus or deficit should be explained through appropriate presentation and disclosure requirements developed at standards level.

The IPSASB discussed the points made in support of both AVs. The Chairman said that the fundamental point is whether to deal with financial performance in the Framework or at standards level. Members agreed about the requirement to be clear about the meaning of financial performance in the public sector, including reporting the maintenance of operating capacity and how to consider different ways to present this to users. A member commented that determining the key measure of financial performance is a major conceptual issue and noted that an approach based on the IASB's "Other Comprehensive Income" would, on its own, be conceptually insufficient in the public sector. A member pointed out that an alternative approach to deferred inflows and deferred outflows and the expansion of the definitions of revenue and expenses is the modification of the definitions of assets and liabilities, and therefore a reflection of the phenomenon in the statement of financial position. The member considered it was essential to resolve which approach to adopt on a conceptual basis.

The IPSASB noted that across the public sector there are many grants of a non-exchange nature that are transferred either in advance or in arrears and agreed it is important to arrive at accounting and presentation solutions for dealing with such transactions. While the IPSASB recognized the problem it considered there is still uncertainty about the right solution.

As a next step, staff and the Task Based Group (TBG) were directed to undertake an analysis of what financial performance and financial position mean in the public sector for consideration at the September meeting.

The Board then considered the responses to the other SMCs.

SMC 1–Definition of an Asset

Staff explained that, while the majority of respondents generally supported the proposed definition of an asset, a number of suggestions had been received on the wording of individual components of the definition.

Overall approach and control

Staff reported that a respondent had questioned whether an entity controls the resource if it is a third party that benefits from the asset's service potential. Noting this, a member highlighted the difficulty of defining control too broadly or too narrowly and questioned, for example, in relation to public roads, whether it is the government or a third party, the road users, who derive the benefits. The government has the role and responsibility to look after the road while the vehicle user derives the benefit. The IPSASB noted that in such cases the provision of a service would be in accordance with the service provider's objectives and that, in such a case, the entity controls the resource.

Another member highlighted a risk that an asset such as a heritage asset may be claimed as an asset by both the entity which owns it and by the entity which derives a benefit. The IPSASB acknowledged that such circumstances might arise. While legal ownership is an indicator of control, judgement will be needed in determining which entity has the asset.

Staff proposed that control exists in the definition of an asset rather than as recognition criteria and the IPSASB confirmed this approach.

Contingent Assets

The IPSASB discussed the suggestion by one respondent that the Framework should acknowledge that assets include contingent assets. Members concluded that although contingent assets give rise to recognition issues they do not need to be defined or discussed in the Framework.

Service Potential and Economic Benefits

Staff reported that some respondents had questioned the need for both terms service potential and economic benefits in the definition of an asset. Staff reminded the IPSASB of earlier discussions on this matter and considered that the rationale for retention of both terms remained sound. The IPSASB reaffirmed its view that both terms were required in the definition.

Future Inflows

Several respondents proposed inserting "future" before "inflows" into the definition. The IPSASB agreed "future" is not required in the definition, but that an explanation should be included in the Basis for Conclusions that inflows contribute to operating capacity and therefore the ability of an entity to deliver services in the future.

Risks and Rewards as an Indicator of Control

Staff reported that two respondents had suggested adding risks and rewards to the list of indicators of control in paragraph 2.7. The IPSASB concluded that including references to risks and rewards as indicators of control was not appropriate for the main text, but there should be a more detailed explanation given of the reason in the Basis for Conclusions.

Staff explained that several respondents questioned the need for a past event as an essential characteristic of the definitions of both assets and liabilities. The IPSASB discussed the inclusion of the

example of the four steps in the process of determining when rights and powers give rise to an asset for a tax in paragraph 2.8 of CF–ED2. While generally seeking to avoid inclusion of examples within the main text, the IPSASB decided to retain this one. The IPSASB supported the staff view on retention of past events in the definitions of an asset and a liability, and also decided that any further guidance should be provided at standards level.

Unconditional Rights

Staff explained that one respondent disagreed with the explanation in the Basis for Conclusions that unconditional promises may give rise to assets if the entity has paid for them, or a market value has been identified. Staff also reported another respondent disagreed that the identification of circumstances where unconditional rights give rise to an asset is a standards level issue, stating that further work is required in order to provide the necessary underpinning for standards level discussions. The IPSASB agreed with the staff proposal to reconsider the treatment of unconditional rights at the next meeting.

Executory Contracts

Staff reported that some respondents expressed reservations about the explanation in the Basis for Conclusions that recognition of the rights and obligations related to executory contracts should be determined at standards level. Staff explained the TBG concern that executory contracts comprise both assets and liabilities and that recognizing both would involve the inclusion of potentially very large related amounts in the statement of financial position and the statement of financial performance, which could conflict with the QC of understandability. The Chairman noted that in some jurisdictions executory contracts were illegal in both the public and private sectors. One member pointed out that leases may take the form of executory contracts and suggested that, for a user looking at operating capacity, disclosure of leasing commitments in the financial statements would be useful information.

Staff requested confirmation that members were generally content to continue with the proposed definition of an asset. There was general support for the definition. However, two members of the TBG raised the possibility of broadening the definition to encompass deferred inflows and deferred outflows, noting that any such modification would depend on the analysis on the approaches to financial performance and financial position. The Chairman expressed reservations about a lengthy and complex definition.

SMC 2 (a)–Definition of a Liability & 2 (b)–Description of Non-Legal Binding Obligations

Little or No Realistic Alternative

Staff explained that two respondents had raised a number of concerns regarding the term “little or no realistic alternative” in the proposed definition of a liability. Some members suggested “expected” might be a better term as it would be consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Other members suggested that, as drafted, the phrase is problematic because sovereign powers give governments an alternative to avoid an outflow of resources. Another member commented that judgement had to be realistic so the inclusion of “little or” had little effect. The member also noted a risk that no realistic alternative could mean “virtually certain” which is a very high threshold and could give rise to unforeseen implications when the IPSASB develops detailed requirements for public sector specific issues such as social benefits. Other members proposed to delete “little or” from the definition. After further discussion, the IPSASB agreed to delete the two words “little or” from the definition and to strengthen the explanation in the Basis for Conclusions.

Legal or Non-legal Requirement

Staff explained that a number of respondents had commented on aspects of the definition and questioned whether liabilities should be limited to legal (or equivalent) obligations. Some members supported these reservations while others argued that to preclude liabilities arising from non-legal binding obligations would give rise to incomplete, not faithfully representative, financial statements. Staff reminded the IPSASB of an example of a non-legal binding obligation in one jurisdiction, where, following a disaster, a government had announced a relief programme before the enabling legislation had been enacted. The government had a past record of providing financial support for the victims of natural disasters. In this example the IPSASB had concluded that not to have recognized a liability would have distorted the government's financial position.

Staff noted that paragraph 3.10 proposed the attributes that a non-legal binding obligation must have in order to meet the definition of a liability. The proposed approach is quite rigorous and might partially allay the reservations of those who consider that liabilities should be restricted to legal obligations. Members acknowledged the difficult audit implications in deciding which government promises give rise to liabilities at a particular date. Members also concluded that a past track record of honoring similar obligations is important in assessing whether a liability arose.

Staff reported that respondents had questioned whether the term non-legal binding is appropriate. A member noted the term "constructive" had been used elsewhere to cover liabilities other than those relating to a legal contract. Members noted the possible difficulty that, when translated, the term non-legal could be construed as endorsing illegality. The term "non-legally binding obligations" was suggested instead, but received limited support. After discussion the IPSASB directed staff and the TBG to try to identify an alternative term for further discussion at a future meeting, but, in the meantime, tentatively agreed to retain the term "non-legal binding obligations".

Political Compulsion.

Staff reported that some respondents proposed clarifying that political compulsion does not give rise to an economic obligation. The IPSASB confirmed that political compulsion does not give rise to a liability and supported the staff view to add a reference to political compulsion in paragraph 3.7.

Provisions

Staff explained that a respondent had suggested broadening the definition of a liability to include a specific reference to provisions. Staff pointed out that provisions already meet the definition of a liability. The IPSASB agreed with staff's proposal not to specifically identify provisions in the definition.

Contingent Liabilities

The IPSASB discussed the suggestion by one respondent that the Framework should acknowledge that liabilities include contingent liabilities. Members confirmed that, while contingent liabilities should be disclosed in the notes as for contingent assets, contingent liabilities do not need to be defined or discussed in the Framework.

Stand-ready Obligations

Staff reported that one respondent considered that the approach to stand-ready obligations in CF-ED2 was flawed and should be reconsidered. Other respondents had expressed the view that only fully unconditional obligations give rise to liabilities. Staff supported this reservation. Staff noted that the IASB

had rejected the approach that a present obligation must be strictly unconditional. Staff questioned the implications of the approach in CF–ED2 if, for example, the IPSASB were to initiate a project to develop a standard on insurance contracts.

The Chairman contrasted the differences between the public and private sectors in relation to stand-ready obligations. Governments are often the lender of last resort, so there is a public sector specific reason for the IPSASB to consider a different approach to these obligations from that taken by the IASB. A member noted that, in the welfare state, the state stands ready to deliver a number of benefits which, if recognized, would have far-reaching implications. Other members acknowledged this and noted there were also other areas where the public sector is different, referring to situations in various jurisdictions where the government had stood ready to rescue banks, and where government guaranteed student loans by banks. Members considered that each programme or situation had to be examined individually at standards level. The IPSASB tentatively decided not to introduce the term stand-ready obligations into the Framework and to retain the position in CF–ED2 that ~~liabilities only arise from fully unconditional obligations~~conditional obligations may give rise to liabilities and that the identification of circumstances where conditional obligations may give rise to liabilities is a standards-level issue. Members directed that the Basis of Conclusions should reflect the discussion. *[Staff comment – correction proposed to draft minutes to reflect paragraph BC22 of CF-ED2]*

Past events

Staff explained that, as with assets, a number of respondents questioned the need to refer to past events in the definition of a liability. Staff highlighted that in the public sector commitments and obligations arise at a number of points and therefore identification of a past event that gives rise to a liability is very important. Members agreed, noting that in the context of the financial support to the victims of natural disasters, earthquakes and floods are examples of past events that might give rise to liabilities

Performance obligations

Staff pointed out that a number of respondents had questioned the implications for performance obligations of the forthcoming IFRS on Revenue Recognition. One member also suggested to staff a need to consider the impact of performance obligations in the context of deferred inflows and deferred outflows. The IPSASB approved staff's proposal to consider the issue of performance obligations in more detail at the next meeting.

Commitments

Staff explained one respondent had commented that commitments are not mentioned in the Framework although they are very significant in the public sector. The IPSASB agreed that consideration should be given to acknowledging commitments in the Basis for Conclusions, explaining that commitments are only liabilities if they meet all components of the definition of a liability. The IPSASB also acknowledged that commitments will need to be considered thoroughly in the context of a standards level project on social benefits.

SMC 3–Definition of Revenue & SMC 4-Definition of Expenses

Staff pointed out that many respondents who disagreed with the proposed definitions of revenue and expenses did so because of the proposal to define deferred inflows and deferred outflows as elements. Staff also highlighted that some respondents suggested expanding the definitions of revenue and expenses to provide for revaluations or enhancements. A member pointed out that the approach to

revaluations depends on the approach to financial performance. The IPSASB decided to defer discussion of revenue and expenses, because of relationship with deferred inflows and deferred outflows.

SMC 6–Net Assets, Net Financial Position, Ownership Contributions, Ownership Distributions and Ownership Interests

Staff explained that this SMC had four components. The first related to the proposed descriptions of the terms net assets and net financial position. The IPSASB noted that the term net financial position arose because of the proposed introduction of deferred inflows and deferred outflows as elements and would need to be reconsidered in the light of future decisions on deferred inflows and deferred outflows. The second and third components related to defining ownership contributions and ownership distributions as elements. The Chairman questioned the need for such elements. A member of the TBG explained that ownership contributions and ownership distributions are needed to distinguish inflows and outflows related to ownership interests from revenue and expenses. This member acknowledged that alternative terminology might be more appropriate. The fourth component noted that ownership interests were not defined in CF–ED2 and asked whether they should be. While respondents provided mixed views on this issue, the IPSASB tentatively decided to retain the approach in CF–ED2 on the grounds that ownership interests are not sufficiently significant in the public sector to justify a definition as an element.

SMC 7–Recognition

Staff noted that the IPSASB had already decided that ‘control’ should be a component of an asset and that a ‘past event’ should be a component of an asset and a liability. Staff pointed out respondents also questioned the absence of recognition thresholds or criteria. Staff proposed that, in the context of existence uncertainty, consideration should be given to acknowledging that it might be appropriate to establish thresholds at standards level. The IPSASB agreed that it would be difficult to specify thresholds in a Framework. The IPSASB also agreed with the staff proposal of giving an example in the Basis for Conclusions of a legal case where the outcome was unknown as an example of measurement uncertainty. The IPSASB supported the staff proposal to consider both the content of the main text and the Basis for Conclusions in more detail at the next meeting.