



## **Agenda Item 4A.2/3 Conceptual Framework: Elements – First Draft (partial) Chapter 5**

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IPSASB Meeting  
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Toronto, Canada

# Objectives of this session

## **Review, agree and/or provide directions for further development of** Chapter 5 *Elements and Recognition in Financial Statements*

### **Agenda Materials:**

- 4A.2 Issues paper – Draft Chapter 5. Outlines changes to CF-ED2
  - From adoption of Option D and for directions re “Recognition – “new” changes
  - Previously agreed/directed at meetings June, Sept, Dec. 2013
- 4A.3 Marked-up draft Chapter 5 (4A.3b clean copy)
  - Marked-up CF-ED2 for decisions/directions of IPSASB & consequents & edits
- 4A.4 & 5 Extract of minutes of Sept. & Dec. 2013 meetings

## Proposed Process

1. Introductory Comments on major issues for resolution:
  - “Delivery” of Option D: terminology, definitions of revenue and expenses
  - Recognition
2. Work through 4A.3 section by section (or subsection)
  - First text and then basis for conclusions
  - Note paragraph numbers and contents pages to be updated for final approval
3. Introductory comment to each section by staff/BG to identify/explain:
  - Key changes to the section/subsection and “consequentials”
  - Areas of remaining concern
4. Discussion by, and directions from, Members

# Proposed Process

**All amendments to CF-ED2 are shown in mark-up. This includes**

- Amendments agreed in September and December 2013
- Amendments for directions in December 2013
- Additional amendments proposed by staff :
  - As consequential and editorials
  - Acknowledge in the BC views of respondents to CF-ED2
  - Acknowledge alternate approaches to the issue considered by IPSASB
  - Additional issues identified by staff/TBG
- Boxed text in 4A.3 identifies nature of amendment and background

## Section 1: Introduction

### Agenda item 4A.3, page 4-6

#### Section 1 Amended to reflect IPSASB decisions & staff proposals re:

- **Option D**– paras 1.2, 1.5 to remove: deferred inflows & outflows are elements
- **Option D**– paras 1.4, 1.7 to not preclude other liabilities and other obligations when required or allowed by IPSASs
- Para 1.2-Ownership Contrib'ns & Distrib'ns not recognized in St. Fin. Position
- **Paragraph 1.9:** reflect proposed approach to recognition (existence uncertainty also relates to satisfying definition of element ) - Revisit after section 7
- **Paragraph 1.10:** deleted to conform with IPSASB decision that Framework is not to include comparison with IASB and GFS equivalents
- **Footnote 1:** to better align with Chapter 2 explanation of objectives

#### • IPSASB DIRECTIONS

## Section 2 : Assets

### Agenda item 4A.3, page 7-9

- **Amended to reflect IPSASB decisions & staff proposals re**
- **Para 2.1. Definition of asset agreed December 2013**
- **Para 2.2: Explanation of resource agreed Sept. 2013 – staff also propose**
  - **Para 2.2** (& other paras) replace “benefits” with “service potential & economic benefits”
  - First sentence **para 2.3** deleted as consequence (repetitive)
  - Sub head **para 2.6**, revise as: “An entity ~~presently~~ controls”
  - Revision to **para BC7** to strengthen need to satisfy definition of element and recognition.
    - Consider as part of BC review.
- **Other amendments to this section agreed September 2013**
  - See: deleted heading before 2.3, paras 2.4& 2.6, footer 3 re goods and services

## • IPSASB DIRECTIONS

## Section 3: Liabilities

### Agenda item 4A.3, page 10

- **Para 3.1. Definition of liability agreed December 2013**
- **Para 3.2 Explanation of resource agreed Sept. 2013 – staff also propose**
- **Amendments as consequence of revisions to paras 3.1 & 3.2, to:**
  - Many paras:to reflect clarification of features of a present obligation and a liability, for e.g: a liability is present obligation for an outflow of resources & from past event
  - Reposition para 3.13 as 3.3 – to bring these two features of a liability together
  - Use “resources” when referring to characteristics of liability (eg para 3.3 and elsewhere)
  - Include additional explanation of “other binding obligation” (para 3.4, BC33 &35 and more).
    - On reflection, staff propose using the term: “non-legally binding obligation”
    - Clarifies explanation and clarifies distinction from “other obligations” as used in Option D

### – IPSASB DIRECTIONS

## Section 3: Liabilities

### Agenda item 4A.3, page 11-13

#### Little or no realistic alternative to avoid

- “little or” reinstated in para 3.2 and used throughout text (eg 3.11(c))
  - IPSASB deliberations re removal of this phrase noted at BC32 (consider as review BC)

#### **Legal obligation and political coercion**

- Para 3.8 amended to remove term “political coercion”

**Drafting** refinements and consequentialials – e.g. paras 3.9, 3.10, 3.12, 3.13

**“Old” para 3.13:** repositioned as para 3.3

#### – **IPSASB DIRECTIONS**

**BC Section 3:** Updated ( consider when review BC)



## Sections 4: Revenue & expenses

Agenda item 4A.3 page 14-15

### Section 4 updated to reflect Option D

- **Para 4.1.** Definition of revenue revised to refer to other resources/other obligations
- **Para 4.2.** Definition of expenses revised to refer to other resources/other obligations
- **Para 4.3.** Explains focus on net financial position
- **Para 4.5.** Role of Chap.6 re M'sment (previously all ↑ and ↓ in A&L [except OC&OD] to R&E)
- **Para 4.8 & 4.9.** Outlines notions of fin. performance reflected in surplus & explains:
  - Framework does not define revenue expense by reference to funding or operating model
  - IPSASs may classify as such to respond to user info needs and objectives in Chap. 2
- **Terminology-** staff propose revenue and expense – both singular (ditto OC and OD)
  - **IPSASB DIRECTIONS**
- **BC Section 4. Updated**
- (Note: BC43 explains Framework is a living document – consider when review BC)

## Section 5: Other resources and other obligations

Agenda item 4A.3 page 17-18

### Section 5 has been updated to reflect Option D

- **Para 5.1 & 5.2 explain:**
  - Other resources & other obligations recognized when required/allowed by IPSAS
  - Circumstances in which IPSAS may require/allow other resources/other obligations:
    - determined by reference to objectives and users needs
  - Link to chapter 2 noted (on reflection Ch. 2 summary may not be necessary- i.e. repetitious)
- **IPSASB DIRECTIONS**
  - **BC Section 5:** Updated ( consider when review BC)

## Sec 6: Net assets, net fin. position, ownership contrib'ns & distrib'n

Agenda item 4A.3 page 19-20

### Section 6 updated to reflect Option D

- See Revisions to para 6.1 and 6.2.
  - BC56-59 also updated

### Amendments to definition/explanation of ownership distribution

- Para 6.2: OC & OD not recognized in St of Fin. Position
- Paras 6.3 – 6.5 to clarify
  - distributed to/received from external parties in their capacity as owners*
- Revisions to para 6.5 agreed September 2013

- **IPSASB DIRECTIONS**

- **BC Section 6:** Updated (consider when review BC)

## Section 7: Recognition

### Agenda item 4A.3 page 21 -23

**Issue: *existence uncertainty* as “distinct/separate” stage in recognition e.g.**

- **Para 7.1** Recognition incorporate in a “*financial statement an item that meets the definition of an element ...Recognition is a distinct stage in the accounting process*” (also in para 1.9).
- Focus of **para 7.2** is on determining whether the definition of an element is satisfied
- old version **BC61** “*existence uncertainty-whether an item meets the definition of an element*”

**Staff propose: *existence uncertainty* also considered to satisfy defin. of element:**

- **Para 1.9** delete
- **Para 7.1, 7.3** (see boxed text) amend to acknowledge:
  - Existence uncertainty also relevant to satisfy definition - but viewed as distinct stage
  - Failure to satisfy existence uncertainty means do not recognize as element
  - Other resources and other obligations may be recognized
- “old” **para 7.2** moved to become 7.6 as per IPSASB decision in Dec 2013

### • IPSASB DIRECTIONS

## Section 7: Recognition

### Agenda item 4A.3 page 21 -23

#### **Basis for conclusions updated** (consider when review BC)

- BC 64 to acknowledge some reservations about the threshold approach may also apply to other approaches to recognition.
- BC60, 61, 66 to reflect existence uncertainty also considered when deciding if definition is satisfied

- **IPSASB DIRECTIONS**

# Basis for Conclusions

- Staff propose moving through BC on section by section basis
  - BC paras updated to reflect :
    - IPSASB decisions and consequential amendments
    - Editorials and drafting refinements – including terminology
    - Additional proposed amendments as identified in Agenda paper 2A.2
  - The following slides note the more substantive amendments to paras of the BC
  - Amendments that staff wish to speak to are highlighted in the following slides

# Section 1: Basis for Conclusions - Introduction

Agenda item 4A.3, page 24-25

## Section 1 updated to reflect Option D:

- **Note amendments made to:**
  - BC1, BC2- consequential and to reflect this is a chapter of the Framework
  - New BC3 to note responses to CF-ED2 and outline IPSASB response.
  - New BC4 to acknowledge IPSASB had considered whether the :
    - Framework should specify only the characteristics of the elements;
    - Financial statements in which each element is to be recognized would be specified at standards level and financial statements and presentation allowed to evolve

## IPSASB DIRECTIONS

## Section 2 : Basis for Conclusions - Assets

### Agenda item 4A.3, page 25-30

- **Nature of Amendments to paras:**
  - BC5 – agreed September 2013, updated for editorials
  - “Old” BC 5: deleted – to reflect style of final chapter
  - BC7 agreed Sept. 2013 – boxed text: additional revisions proposed by staff to reflect role of definition and recognition (to respond in part to concern of a TBG Member)
  - BC8, BC9, BC10 – agreed September 2013 plus editorials and note responses to CF-ED2
  - “Old” BC 10: deleted – repeat of para 2.6
  - BC11 to BC16 – editorial/drafting amendments
  - BC17 – agreed September 2013
  - BC18 to BC 21 – editorials/drafting and to acknowledge responses to CF-ED2 received

- **IPSASB DIRECTIONS**



## Section 3: Basis for Conclusions - Liabilities

Agenda item 4A.3, pages 30 - 35

- **Nature of Amendments to this section:**
  - BC22 to BC 31 agreed September 2013 except for drafting refinements and also:
    - BC25- BC26 amended to remove repetition, acknowledge responses to CF-ED2 & for edits
    - BC31 amended to acknowledge responses to CF-ED2
  - BC32 proposed to note IPSASB considered removal of “little or” in *present obligation*
  - BC31 to BC 37– edits, note responses to CF-ED2 and remove duplication of text (BC 35),
  - BC38 – agreed September 2013
- **IPSASB DIRECTIONS**

## Sections 4: Revenue and expenses

Agenda item 4A.3 pages 35-37

### Section 4 (BC39-BC47) updated for Option D and consequentials:

- BC40 & 41 – to note approach in CF-ED 2 and views of respondents to CF-ED2
- BC 42 – changes to definition of revenue and expense made by IPSASB in response
- BC43 – to reflect view that Framework is a living document.

- **IPSASB DIRECTIONS**

## Section 5: Other resources & other obligations

Agenda item 4A.3 page 37-40

### Section 5 updated for Option D

Paras BC48-BC55 identify approaches considered by the IPSASB, updated to reflect responses to ED and consequential adoption of option D.

- BC48 – acknowledges responses to CF-CP2 and CF-ED2 noted there was merit in both notions of fin. performance in CF-CP2 and IPSASB considered whether the F/work should just define elements and not specify display of one or other measure of performance.
- BC49- BC52 – are approaches identified in CF-ED2, updated for this as the final Chapter
- BC53 notes some responses reflect that A, L, R, E, OC, OD may not catch all eco phenomena.
- BC54 notes CF-ED2 approach and IPSASB had considered whether DI and DO should be identified as elements of St. of Fin performance.
- BC55 notes responses to CF-ED 2 and that while DI and DO no longer identified as elements, presentation of information about period flows is important.

### • IPSASB DIRECTIONS

## Sec 6: Net assets, net fin. position, ownership contrib'ns & distrib'n

Agenda item 6B.3 page 40-42

### Section 6 (paras BC56-BC59) updated to reflect Option D

- BC56: outlines the difference between net assets and net financial position and the circumstances in which those differences may arise (the para should reflect this is when required or allowed by an IPSAS)
- BC59 final sentence agreed September 2013

- IPSASB DIRECTIONS

## Section 7: Recognition

Agenda item 4A.3 page 42- 44

### Section 6 updated to reflect Option D & proposed revised existence uncertainty Amendments to Section 7 in this draft

- Heading amended to reflect section does not focus on recognition Vs disclosure
- BC60, BC61 and BC66 acknowledges:
  - “overlap” re existence uncertainty (BC60, BC61 and BC66), and
  - recognition may apply to items that are not elements under Option D (BC60)
- BC 64 – to acknowledge some reservations about the threshold approach may also apply to other approaches to recognition.

- **IPSASB DIRECTIONS**

## Next steps

- At next meeting proposed IPSASB will review draft of Chapter reflecting IPSASB decisions at this meeting.
  - If additional mark-ups are extensive staff to prepare clean and marked-up draft chapter
  - Clean version to be reviewed at next meeting
- Alternative views and appendices to be removed from final draft chapter
  - To reflect IPSASB decisions of style of final Framework

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