

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Brussels, Belgium

**Meeting Date:** September 15-18, 2014

## Agenda Item 2

For:

☐ Approval

☐ Discussion

☒ Information

### Conceptual Framework for Financial Reporting

#### Objective(s) of Agenda Item

1. The objectives of the sessions on the Conceptual Framework are:
  - To **review** and **approve** *The Preface to the Conceptual Framework for Financial Reporting*,
  - To **review** and **approve** the draft final Chapter 5, *Elements in Financial Statements*;;
  - To **review** and **approve** draft final Chapter 6, *Recognition in Financial Statements*;;
  - To **approve formally** Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*;
  - To **approve formally** Chapter 8, *Presentation in General Purpose Financial Reports*;
  - To receive an update on developments on the IASB project to revise its Conceptual Framework.

#### Material(s) Presented

Agenda Item 2.1	Coordinator's Report
Agenda Item 2A	Covering memorandum and revised final draft, <i>The Preface to the Conceptual Framework for Financial Reporting</i>
Agenda Item 2B	Issues Paper and draft final Chapter 5, <i>Elements in Financial Statements</i> , and draft Chapter 6, <i>Recognition in Financial Statements</i>
Agenda Item 2C	Covering memorandum and Chapter 7, <i>Measurement of Assets and Liabilities in Financial Statement</i>
Agenda Item 2D	Covering memorandum and Chapter 8, <i>Presentation in General Purpose Financial Reports</i>

### CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

#### Objectives of Report

1. The objectives of this report are to highlight:
  - The current version of the project plan and timetable (the project timetable);
  - Developments in the International Accounting Standards Board's (IASB) project to revise its Conceptual Framework.

#### Project Timetable

2. A revised project timetable was circulated in July 2014 and reflected approval in principle of Chapter 7, Measurement of Assets and Liabilities in Financial Statements, and Chapter 8, Presentation in General Purpose Financial Reports at the June 2014 meeting, and the aim to have final approval of the Framework in September 2014. This version of the timetable is attached at Appendix A.

#### Matter for Consideration

1. The IPSASB is asked to **note** the current project timetable.

#### IASB Conceptual Framework Developments

3. The IASB continued its discussions on the development of an Exposure Draft at the June and July meetings. This section considers some of the main areas considered that, in the Coordinator's view, have most relevance for the IPSASB. It does not discuss all the issues considered by the IASB at its June and July meetings.

#### *Profits and Loss and Other Comprehensive Incomes.*

4. The IASB has made tentative decisions that the Conceptual Framework should:
  - Require profit or loss as a total or subtotal;
  - Describe profit or loss as the primary source of information about an entity's performance for the period, but emphasize that it is not the only source of such information;
  - Describe the dual objectives for profit or loss as depicting the return that an entity has made on economic resources during the period, and providing information that is helpful in assessing prospects for future cash flows; and
  - Include a rebuttable presumption that all items of income and expense should be included in profit or loss unless the IASB concludes otherwise at standards level; an example of such a situation is where one measurement basis is appropriate for an asset or a liability in the statement of financial performance and another measurement basis is appropriate for profit or loss. Staff has been directed to consider the possibility of finding principles for identifying items of income and expense that can only be included in profit or loss.

### *Economic Resources and Economic Benefits*

5. The IASB has made tentative decisions that the Conceptual Framework should provide:
- Guidance on economic resources based on the Discussion Paper (DP), *A Review of the Conceptual Framework for Financial Reporting*, which identifies the various forms that economic resources can take; and
  - Guidance on economic benefits consistent with the DP and IFRS 15, *Revenue from Contracts with Customers*. The DP notes that economic benefits derived from an asset are the potential cash flows that can be obtained directly or indirectly in many ways and provides examples. The DP also indicates that for a physical object the economic resource is not the object itself, but a right or set of rights to obtain the economic benefits generated by the physical object.

### *Executory Contracts*

6. The IASB tentatively decided that the Conceptual Framework should explain the nature of assets and liabilities in executory contracts and state that an enforceable executory contract contains a right and an obligation to exchange economic resources (or to pay or receive the difference in values between two economic resources if the contract will be settled net). The combined right and obligation would constitute a single asset or liability. The IPSASB has decided that the presentation of executory contracts is a standards-level issue.

### *Unit of Account*

7. The IASB's current tentative position is that the unit of account is a standards-level decision. The Conceptual Framework should describe possible units of account and factors to consider when determining the unit of account. Chapter 7 of the IPSASB's Conceptual Framework acknowledges the issue of aggregation and disaggregation, but does not provide factors for consideration

### *Presentation and Disclosure*

8. The IASB has tentatively decided:
- To reconfirm the proposal in the DP that each Standard should have a clear objective for disclosure and presentation requirements;
  - To reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information;
  - To include in the Conceptual Framework the communication principles proposed in the DP that are primarily directed at the IASB and discuss how they relate to the qualitative characteristics (QCs) of useful financial information. Disclosure requirements should seek to
    - o Promote the disclosure of useful financial information;
    - o Result in disclosures that are clear, balanced and understandable;
    - o Avoid duplication of the same information in different parts of the financial statements;
    - o Optimize comparability without compromising the usefulness of the information disclosed; and

- Not include in the Conceptual Framework a discussion about financial statements in an electronic format.
  - Not to introduce the notion of 'primary financial statements' that had been proposed in the DP. This is consistent with the IPSASB's approach in Chapter 8.
9. While the IASB's approach is focused on the financial statements rather than, as for the IPSASB, the GPFRs, the Coordinator's view is that there are considerable similarities between the two approaches, notably the emphasis on a clear presentation objective for each standard and on the usefulness of the information provide by disclosures and the QCs.

#### *Materiality*

10. Except for a minor clarification on "users" the IASB has tentatively decided not to amend the concept of materiality in Chapter 3, Qualitative Characteristics of Useful Financial Information of the existing Framework. Chapter 3 states that "information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity." Chapter 3 also states that materiality is an entity-specific aspect of relevance. Chapter 3 of the IPSASB Framework differs in expressing a view that materiality has a more pervasive role than would be reflected by its classification as only an entity-specific aspect of relevance and states that materiality is a constraint on information included in GPFRs.

#### *Measurement*

11. The IASB has tentatively decided that:
- Unlike the IPSASB there will not be a measurement objective. There will be a description of how measurement contributes to the overall objective of financial reporting;
  - When the IASB selects a measurement basis, it should consider the nature and relevance of the resulting information produced in both the statement of financial position and the statement(s) of profit or loss and OCI;
  - Measurement uncertainty is a factor that should be considered when selecting a measurement basis. A high degree of measurement uncertainty does not, by itself mean that the measurement does not provide relevant information;
  - Reliability should not be used explicitly in the context of measurement uncertainty. The discussion of faithful representation in the DP should be retained;
  - There will be an explanation of the need to weigh the benefits of introducing a new or different measurement basis against any increased costs or complexity. The statement in the DP that the number of measurement bases should be the smallest necessary to provide relevant information will not be included in the ED;
  - The ED will retain the discussion of necessary and unnecessary changes in measurement bases in the DP;
  - IASB Staff should bring a paper to a future meeting on the grouping of measurement bases into a small number of categories, reducing the number of measurement bases by combining similar measurement bases and eliminating the description of little-used bases;

- Cash-flow based measurement will not be included as a separate measurement basis on the grounds that the purpose of cash-flow based measurement techniques is normally to implement one of the measurement bases in the Conceptual Framework. The IPSASB took a similar view when developing Chapter 7; and
- Additional guidance will be included on (i) the different approaches to dealing with uncertain cash flows (ii) the use of discount rates and (iii) own credit standing. Chapter 7 of the IPSASB's Conceptual Framework acknowledges that "where fulfillment will not take place for an extended period, the flows need to be discounted to reflect the value of the liability at the reporting date." Chapter 7 does not provide detailed guidance on the selection of discount rates, which the IPSASB considered is a standards-level issue. Chapter 7 does not include guidance on approaches to dealing with uncertain cash flows. The IPSASB raised the issue of own credit risk in the context of liabilities at Consultation Paper stage, but decided not to include the issue in the Framework following consideration of the views of respondents.

*Liability Definition: Present Obligation*

12. The IASB tentatively decided that an entity has a present obligation to transfer an economic resource as a result of past events if both (i) the entity has no practical ability to avoid the transfer and (ii) the amount of the transfer is determined by benefits that the entity has received, or activities that it has conducted in the past. Chapter 5 of the IPSASB's Framework states that an entity has a present obligation if it has little or no realistic alternative to avoid the obligation (rather than the transfer or sacrifice of resources).
13. IASB acknowledges that the meaning of 'no practical ability' will have to be determined on a standard-by standard basis. However the Conceptual Framework should clarify the fact that an entity intends to make a transfer or that the transfer is probable is not sufficient to conclude that the entity has no practical ability to avoid the transfer. The IASB tentatively decided that the Conceptual Framework should provide general guidance on this issue.

*Asset Definition: Control*

14. The IASB has tentatively decided:
  - Not to make control a recognition criterion rather than an essential characteristic in the definition of an asset. The definition of an asset will continue to require an economic resource be controlled by the entity;
  - Exposure to significant risks and rewards will be an indicator of control. The IPSASB decided not to include risks and rewards as an indicator of control on grounds that it might not be consistent with the control approach; and
  - Supporting guidance will clarify that a component of control is the ability to prevent other parties from directing the use of, and obtaining the benefits from, the economic resource. This is consistent with the IPSAB's approach in Chapter 5.

*Other Elements*

15. The IASB has tentatively decided that the Conceptual Framework should not include definitions of elements for the statement of cash flows and the statement of changes in equity. This is consistent

with the IPSASB's approach, although the Coordinator considers that the rationale for the decision in the Basis for Conclusions in Chapter 5 could be strengthened.

16. At its September meeting the IASB plans to discuss
  - Further aspects of measurement;
  - The distinction between liabilities and equity;
  - Implications of long-term investment;
  - Possible amendments to Chapter 1, The Objective of General Purpose Financial Reporting, & Chapter 3, Qualitative Characteristics of Useful Financial Information; and
  - Consequential amendments.
17. Ian Mackintosh, the IASB Vice-Chairman, is attending part of the meeting and there will be an opportunity for IPSASB members to discuss aspects of the IASB's Conceptual Framework with Ian. The IASB is intending to publish an ED in the second quarter of 2016.

**Matter for Consideration**

2. The IPSASB is asked to **note** developments on the IASB's project to revise its Conceptual Framework.

## Appendix A

### Conceptual Framework Project Timetable 2010–2014

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

		<i>to Staff</i>	<i>to Staff</i>	<i>preliminary summary</i>	
Dec 2013		<b>FC</b> <i>Review and directions to Staff</i>	<b>FC</b> <i>Review and directions to Staff</i>	<b>RR</b> <i>Directions to Staff</i>	
Mar 2014		<b>FC</b> <i>Review and directions to Staff for further development</i>	<b>FC</b> <i>Review and directions to Staff for finalization</i>	<b>FC</b> <i>Review and directions to Staff for finalization</i>	
June 2014		<b>FC</b> <i>Review and directions to Staff for finalization</i>	<b>FC</b> <i>Review and approve in principle</i>	<b>FC</b> <i>Review and approve in principle</i>	<b>FC</b> <i>Review and final directions</i>
Sept 2014	FCs Incorporate in Final Framework	FCs <i>Final approval. Incorporate in Final Framework</i>	FC <i>Formal approval. Incorporate in Final Framework</i>	FC <i>Formal approval. Incorporate in Final Framework</i>	FC <i>Final approval. Incorporate in Final Framework</i>

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

### Assumptions and Accompanying Information

- A1. There was an exposure period of six months for the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers — comment period ended mid-June, 2011. There was an exposure period of four months for the Phase 4 Consultation Paper — comment period ended late April 2012.
- A2. There was an exposure period of six months for the Phase 2 and Phase 3 EDs — comment period ended late April 2013.
- A3. There was an exposure period of four months for the Phase 4 ED— comment period ended in mid-August 2013.
- A4. The Phase 1 Chapters were approved in December 2012 and published in January 2013.
- A5. An ED, *The Key Characteristics of the Public Sector with Potential Implications for Financial Reporting (Key Characteristics)* was made available as a Staff draft with the Phase 1 ED and the Phase 2 and Phase 3 Consultation Papers in December 2010. It was approved in March 2011 as an IPSASB document and issued in April 2011 with a consultation expiry date of August 31, 2011. The IPSASB reviewed responses in March 2012 and decided to further develop the text of *Key Characteristics* with a view to its inclusion in the Framework as an Introduction or Preface. At the September 2012 meeting the IPSASB directed that *Key Characteristics* be updated in the form of a Preface and brought back to the December 2012 meeting, along with the Phase 1 final chapters with a view to incorporation in the Framework. At the December 2012 meeting the IPSASB confirmed that such a Preface should be included in the Framework. However, the IPSASB decided that the Preface needed further development. At the March 2013 meeting it was decided to defer finalization of the Preface until the Conceptual Framework has been completed, or substantially completed, so that linkages between the characteristics identified in the Preface and concepts can be made more explicit. The Preface was made available as a Preliminary Board View in July 2013.



- A6. The finalization of Phases 2, 3 and 4 has included a review for consistency with the Phase 1 chapters and Preface.
- A7. The IPSASB will not issue an integrated (umbrella) ED of the proposed Conceptual Framework.
- A8. At its March 2014 meeting the IPSASB decided to publish separate chapters on Elements – Definitions and Recognition.
- A9. The IPSASB approved the Phase 3 and 4 chapters in principle at the June 2014 meeting. The IPSASB will approve the Phase 2 chapters and the Preface at the September 2014 meeting. The IPSASB will publish the Framework in October 2014.