

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: March 16–19 and 23, 2021

Agenda Item 8

For:

- ☐ Approval
☒ Discussion
☐ Information

CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE (CF-LSU) – NEXT STAGE

Project summary	The project objective is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility, and prevalence, with an emphasis on the first three of these criteria.	
Board Sponsor	Ian Carruthers, IPSASB Chair	
Meeting objectives	Topic	Agenda Item
Project management	Conceptual Framework–Limited Scope Update (CF-LSU)–Next Stage: Project Roadmap	8.1.1
	Instructions up to Previous Meeting	8.1.2
	Decisions up to Previous Meeting	8.1.3
Decisions required at this meeting	Project Management – CF-LSU: Next Stage	8.2.1

CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE (CF-LSU) – NEXT STAGE: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Conceptual Framework–Limited-Scope Update	
March 2020	1. Approve Limited Scope Update of Conceptual Framework Project Brief
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft 76, <i>Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update</i>
October 2020	1. Discussion of Issues
December 2020	1. Approve Exposure Draft 76
February 2021	1. Finalize remaining instructions
March 2021	1. Discussion of Issues
June 2021	1. Discussion of Issues 2. Review [draft] Exposure Draft
September 2021	1. Approve Exposure Draft

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Conceptual Framework–Limited-Scope Update		
February 2021	1. All instructions provided up until February 2021 are reflected in ED 76, <i>Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update</i>	1. All instructions provided up until February 2021 re reflected in ED 76, <i>Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update</i>

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Conceptual Framework–Limited-Scope Update–First Stage		
February 2021	1. All decisions provided up until February are reflected in ED 76, <i>Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update</i>	1. All decisions provided up until February are reflected in ED 76, <i>Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update</i>

Project Management – CF-LSU: Next Stage

Questions

1. Does the IPSASB agree that:
 - (a) The grouping of topics proposed for the next stage of the project is appropriate; and
 - (b) Work on capital maintenance and concepts of capital should be taken forward separately on a longer timeframe?

Recommendations

2. Board Sponsor and Staff recommend that:
 - (a) The topics in the next stage of the project should be grouped according to the chapters of the Framework which will be updated;
 - (b) Service potential should be considered in addition to the issues originally identified in the approved project brief; and
 - (c) Work on capital maintenance and concepts of capital should be taken forward separately on a longer timeframe, potentially alongside the project on *Reporting Financial Performance in the Public Sector*, to be considered for inclusion in the mid-term work program consultation.

Background

3. At its March 2020 meeting the IPSASB approved the project brief which identified nine substantive key issues¹. Key issues #2-#5 relate to measurement and are dealt with in ED 76, *Conceptual Framework Chapter 7, Measurement of Assets and Liabilities in Financial Statements: Update*.
4. The Board now needs to consider how to progress the remaining issues identified in the project brief:
 - Key Issue #6: Concepts of Capital and Capital Maintenance.
 - Key Issue #7: Definitions of an Asset and a Liability.
 - Key Issue #8: Unit of Account and Executory Contracts.
 - Key Issue #9: Acknowledgement of Prudence in Context of Neutrality.
 - Key Issue #10: Materiality.
5. During the development of ED 77, *Measurement*, issues were identified with the Conceptual Framework description of service potential in paragraph 5.8 of Chapter 5. Service potential was also an issue in the finalization of ED 75, *Leases*. It was therefore proposed during the December 2020 meeting that this issue would be considered in the next stage of the CF-LSU. Members are asked to confirm that they are content with this approach.

¹ Key Issue #1 related to scope, including highlighting the limited nature of the project, and Key Issue #11 related to communication, particularly emphasizing the limited nature of the project.

Analysis

Grouping of Key Issues #7-#10 and Service Potential

6. With the exception of unit of account, the remaining key issues can be grouped straightforwardly as relating to two chapters of the Conceptual Framework: Chapter 3, *Qualitative Characteristics*, and Chapter 5, *Elements in Financial Statements*.
7. Unit of account is related to a number of conceptual areas, principally elements, measurement, and presentation. The IASB includes discussion of unit account in its chapter on the elements of financial statements in a separate section, which also includes sub-sections on executory contracts and the substance of contractual rights and contractual obligations². The Board Sponsor and Staff feel this grouping is logical, and so propose to follow this approach in updating the IPSASB Conceptual Framework. The proposed grouping of topics is therefore as shown in the table below:

<i>Key Issue # or Topic</i>	<i>Chapter</i>
#7 Definitions of an Asset	5, Elements in Financial Statements
#7 Definition of a Liability	5, Elements in Financial Statements
#8 Unit of Account	5. Elements in Financial Statements
#8 Executory Contracts	5. Elements in Financial Statements
Service Potential	5. Elements in Financial Statements
#9 Prudence	3. Quantitative Characteristics
#10 Materiality	3. Qualitative Characteristics

8. Recognizing the constraint of available meeting time, it is proposed that:
- (a) Prudence and service potential³ be discussed initially in June 2021;
 - (b) An initial discussion of materiality is held in June with a further discussion in September 2021; and
 - (c) The other four topics are considered at the September 2021 meeting.

Key Issue #6 Concepts of Capital and Capital Maintenance

9. Board Sponsor and Staff have reassessed the approach to concepts of capital and capital maintenance. Due to its complexity, considering this issue in the next stage of the Limited Scope Update could delay completion of a further ED by at least two meetings (six months). In addition, the IPSASB will be considering a project on *Reporting Financial Performance in the Public Sector* for inclusion in the mid-term work program consultation, which is due to be issued later this year. Because a major aspect of concepts of capital and capital maintenance is the impacts on determination of surplus and deficit, Board Sponsor and Staff think that Key Issue #6 would be better

² This topic is not in scope of the Limited Scope Update project.

³ Service potential should be prioritized for discussion, as it may potentially impact the review of responses on ED 75, *Leases* (first review of responses planned for September 2021).

taken forward on a longer timeframe, potentially alongside the proposed project on *Reporting Financial Performance in the Public Sector*.

Decision Required

10. Does the IPSASB agree with the Board Sponsor and Staff recommendations in paragraph 2?