

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 12–16, 2022

Agenda Item 8

For:

- ☐ Approval
☐ Discussion
☒ Information

CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE (CF-LSU) – PHASE TWO: MATERIALITY AND ELEMENTS

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
Information Item at this Meeting	High-Level Preliminary Review of Responses to ED 81, Conceptual Framework Update, Chapter 3, Qualitative Characteristics and Chapter 5, Elements.	8.2.1
Other supporting items	ED 81: Analysis of Respondents by Region Function and Language and Listing of Respondents	8.3.1

CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE (CF-LSU): 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 Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements</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
September 2021	1. Discussion of Issues 2. Review [draft] Exposure Draft 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements</i>
October 2021	1. Discussion of Issues 2. Review [draft] Exposure Draft 81
December 2021	1. Approve Exposure Draft 81.
February 2022	1. Publication of Exposure Draft 81
March 2022	1. First Review of Responses to Exposure Draft 76 2. Discussion of Issues
June 2022	1. Second Review of Responses to Exposure Draft 76 2. Discussion of Issues 3. Review Revised Chapter 7, <i>Measurement of Assets and Liabilities in Financial Statements</i>
September 2022	1. Third Review of Responses to ED 76: SMCs on Replacement Cost and Value in Use 2. Discussion of Issues 3. Initial Review of Responses to Exposure Draft 81
December 2022	1. Approve Revised Chapter 7, <i>Measurement of Assets and Liabilities in Financial Statements</i> 2. Second Review of Responses to Exposure Draft 81 3. Discussion of Issues 4. Review Revised Chapter 3, <i>Qualitative Characteristics</i> , and Chapter 5, <i>Elements in Financial Statements</i>

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March 2023	<ol style="list-style-type: none">1. Third Review of Responses to Exposure Draft 812. Discussion of Issues3. Review Revised Chapter 3, <i>Qualitative Characteristics</i>, and Chapter 5, <i>Elements in Financial Statements</i>
June 2023	<ol style="list-style-type: none">1. Approve Revised Chapter 3, <i>Qualitative Characteristics</i>, and Chapter 5, <i>Elements in Financial Statements</i>
July 2023	<ol style="list-style-type: none">1. Publication of Revised, <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i>

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Conceptual Framework–Limited-Scope Update: First Stage		
February 2022	1. All instructions provided up until February 2021 were reflected in ED 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics Chapter 5, Elements in Financial Statements</i>	1. All instructions provided up until February 2021 were reflected in the ED 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics Chapter 5, Elements in Financial Statements</i>

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Conceptual Framework–Limited-Scope Update–First Stage		
February 2022	1. All decisions provided up until February 2022 were reflected in the ED 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements</i>	1. All decisions provided up until February 2022 were reflected in the ED 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements</i>

High-Level Preliminary Review of Responses to ED 81, Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements.

Purpose

1. To provide the IPSASB with a high-level preliminary analysis of the responses to ED 81, Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements.

Background

2. ED 81, issued in February 2022, was the second ED in the Limited Scope Update of the Conceptual Framework project. ED 81 proposed modified guidance for specified areas in Chapter 3 and Chapter 5. In Chapter 3 ED 81 proposed guidance on the role of prudence in the core text but did not propose that prudence should be a qualitative characteristic in its own right. ED 81 also proposed adding obscuring information to the factors that could adversely affect a user's ability to use the financial statements for accountability and decision-making purposes.
3. In Chapter 5 ED 81 proposed:
 - The adoption of a more overtly rights-based approach to the definition of, and guidance on, an asset.
 - A revised definition of a liability, which adopts the phrase 'a transfer of resources', rather than 'an outflow of resources' and more extensive guidance on 'a transfer of resources' than currently provided on 'an outflow of resources.'
 - A restructuring of the sections on assets and liabilities, so that the guidance more closely followed the components of the definition.
 - A clarification of the relationship between an obligation and a present obligation in the definition of a liability.
 - A new section on 'unit of account'—the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.
 - Guidance on the accounting treatment of binding arrangements that are equally unperformed by both parties—neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent.
4. The consultation period ended on May 31st, 2022. There were 27 respondents. Agenda Item 8.3.1 provides a breakdown of responses by region, function and language. and lists the respondents.
5. This paper is an information item which provides a very high-level preliminary analysis of responses and indicates areas which may require the most Board time. A more detailed review of responses will be brought to the December 2022 meeting.

High-Level Preliminary Analysis

6. Generally, respondents were supportive of the proposed changes. In particular, there was strong support for addressing the obscuring of information in the context of materiality, the restructuring of the sections on assets and liabilities and the introduction of guidance on the unit of account. The main subjects on which respondents provided comments that disagreed with the proposals or provided further insights are:
 - **Prudence:** A minority of respondents, mostly from Europe, advocated inclusion of prudence as a qualitative characteristic in its own right, citing public sector reasons such as inter-generational equity.
 - **Symmetry:** Many respondents who advocated the introduction of prudence as a QC supported asymmetrical requirements with higher thresholds for the recognition of assets and income than for liabilities and expense. From an empirical perspective, some respondents highlighted the large number of asymmetrical requirements in current IPSAS and suggested that the Framework's strong advocacy of symmetrical requirements sits uncomfortably with the IPSASB's standards-level literature.
 - **Rights approach to a resource in the context of an asset:** A minority of respondents disagreed with the more overtly rights-based approach to an asset suggesting that this undermined a focus on the underlying asset that is seen as important from an accountability perspective in the public sector.
 - **Location of guidance on binding arrangements that are equally unperformed by both parties:** As indicated above, there was strong support for the introduction of principles and guidance on binding arrangements that are equally unperformed by both parties. A number of respondents considered that this guidance should be located in a separate sub-section rather than in the sub-section on Unit of Account, because the guidance is broader than unit of account and relates to the definition of an asset and a liability and recognition.
7. Staff is not evaluating these areas in this paper but highlighting them in order to indicate where Board resources are likely to be directed at the December and March meetings.

Approach In December and March Meetings

8. ED 81 included eight specific matters for comment:
 1. Prudence
 2. Obscuring Material as a Factor Relevant to Materiality Judgments
 3. Rights-Based Approach to a Resource
 4. Definition of a Liability
 5. Guidance on the Transfer of Resources
 6. Revised Structure of Guidance on Liabilities
 7. Unit of Account

8. Accounting Principles for Binding Arrangements that are Equally Unperformed

9. Staff thinks that the best way of organizing the detailed review of responses is to consider SMCs 1 and 2, which relate to Chapter 3 and SMCs 7 and 8 on unit of account and binding arrangements that are equally unperformed at the December meeting. SMCs 3-6, which relate to the definitions of, and guidance on, assets and liabilities in March 2023.

Decision

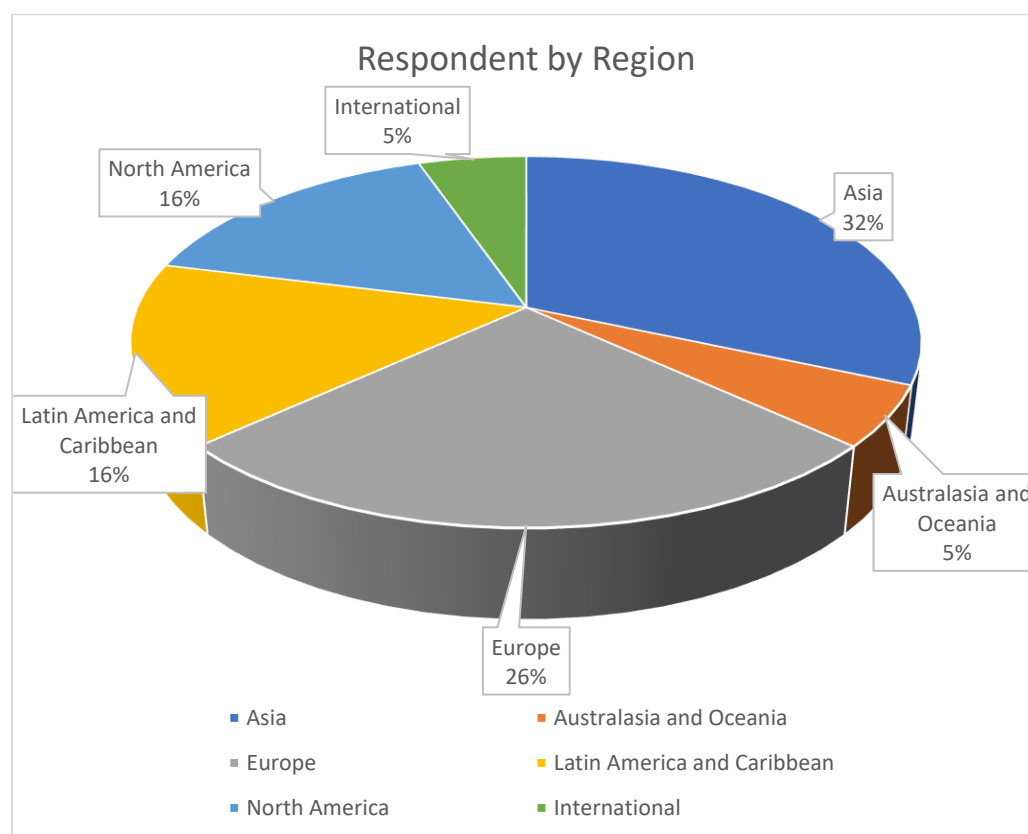
10. No decision is required.

Analysis of Respondents and Listing of Respondents

Analysis of Respondents to ED 81 by Region, Function and Language

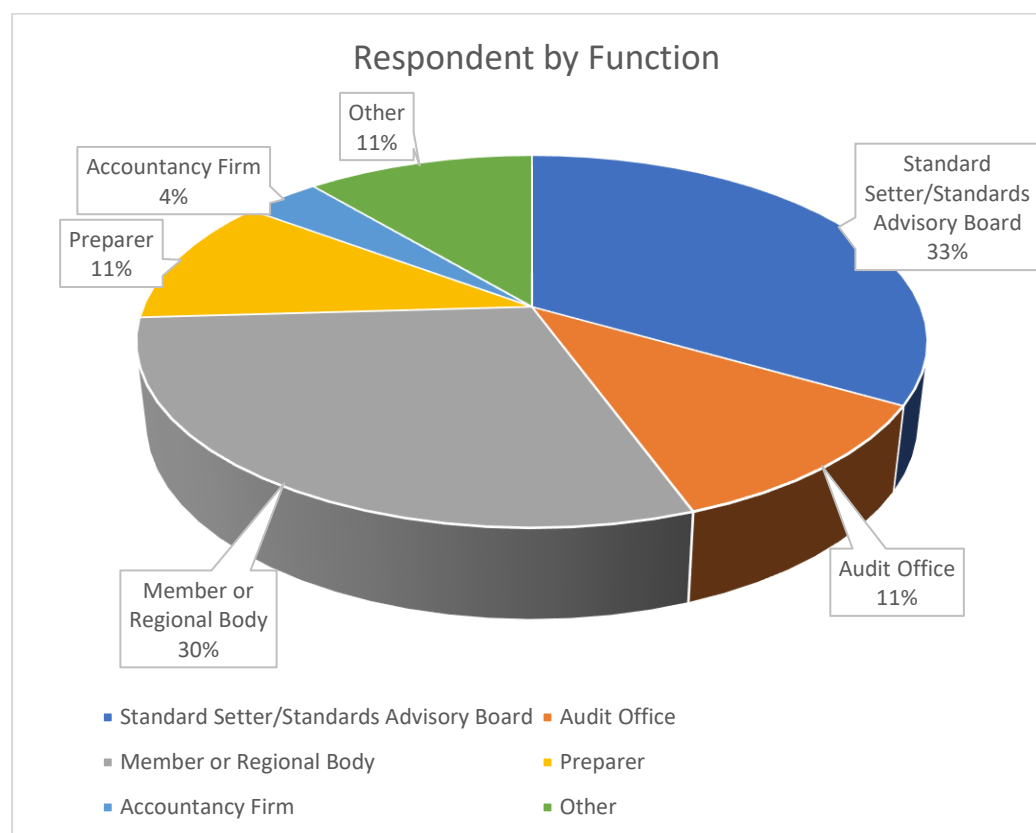
Regional Breakdown

Region	Comment Letter(s)	Total Respondents
Africa	3, 8, 13, 15, 20, 23, 24, 27	8
Asia	2, 4, 6, 17, 22, 26	6
Australasia and Oceania	10	1
Europe	1, 7, 14, 18, 25	5
Latin America and Caribbean	9, 11, 12	3
North America	16, 19, 21	3
International	5	1
Total		27



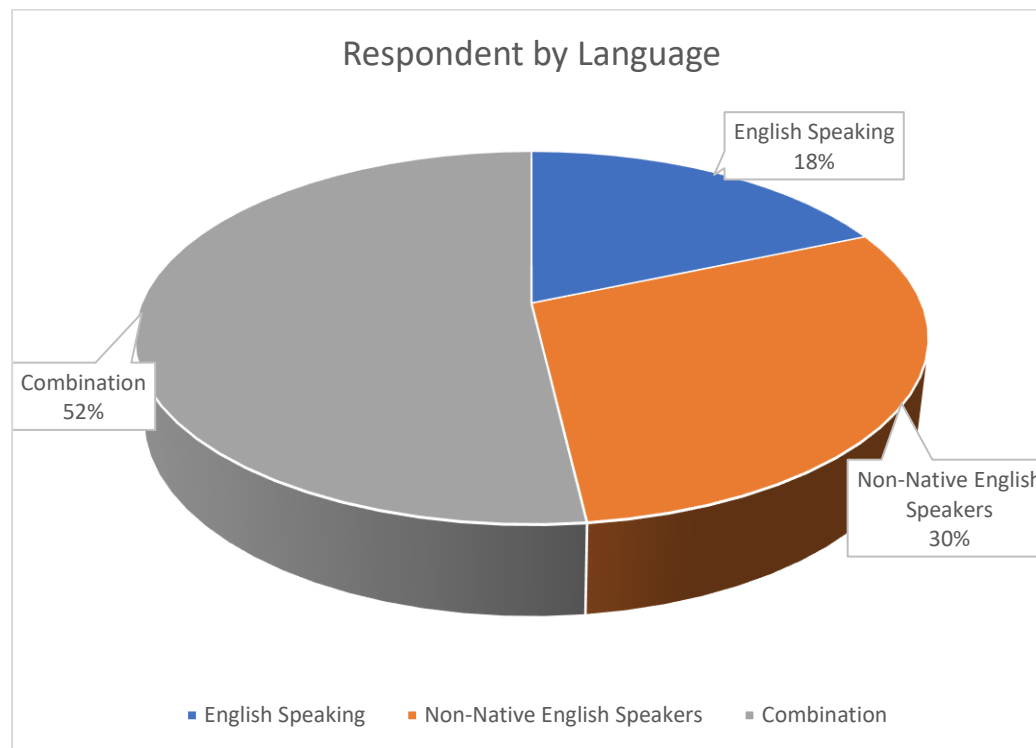
Functional Breakdown

Function	Comment Letter(s)	Total Respondents
Standard Setter/Standards Advisory Board	1, 7, 10, 13, 15, 19, 20, 24, 27	9
Audit Office	2, 16, 21	3
Member or Regional Body	3, 4, 8, 9, 14, 17, 22, 26	8
Preparer	6, 11, 12	3
Accountancy Firm	25	1
Other	5, 17, 23	3
Total		27



Linguistic Breakdown

Language	Comment Letter(s)	Total Respondents
English Speaking	9, 10, 13, 18, 21	5
Non-Native English Speakers	1, 2, 6, 7, 11, 12, 14, 17	8
Combination	3, 4, 5, 8, 15, 16, 19, 20, 22, 23, 24, 25, 26, 27	14
Total		27



Appendix B: List of Respondents to ED 81

Comment Letter #	Respondent	Country	Function
01	01-CNOCP	France	Standard Setter / Standards Advisory Body
02	02-The Office of the Auditor General of the Union, Myanmar	Myanmar	Audit Office
03	03- The Institute of Chartered Accountants of Zimbabwe	Zimbabwe	Member or Regional Body
04	04-The Institute of Chartered Accountants of India Southern Regional Council	India	Member or Regional Body
05	05-Task Force IRSPM, PSAAG, CIGAR Network, EGPA PSG XII	International	Other
06	06-Accrual Accounting Centre, Ministry of Finance	Saudi Arabia	Preparer
07	07-Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/ Standards Advisory Body
08	08-Botswana Institute of Chartered Accountants	Botswana	Member or Regional Body
09	09-Institute of Chartered Accountants of Jamaica	Jamaica	Member or Regional Body
10	10-External Reporting Board (XRB)	New Zealand	Standard Setter/ Standards Advisory Body
11	11-FOCAL (Panama)	Panama	Preparer
12	12-FOCAL (Colombia)	Colombia	Preparer
13	13-Accounting Standards Board	South Africa	Standard Setter/ Standards Advisory Body
14	14-Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
15	15-Public Accountants and Audit Board	Zimbabwe	Audit Office
16	16-Office of the Auditor General Canada	Canada	Audit Office
17	17-The Japanese Institute of Certified Public Accountants	Japan	Member or Regional Body
18	18-Kalar Consulting	United Kingdom	Other
19	19-Public Sector	Canada	Standard Setter/

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	Accounting Board of Canada		Standards Advisory Body
20	20-Botswana Accountancy Oversight Authority	Botswana	Standard Setter/ Standards Advisory Body
21	21-Office of the Auditor General of Alberta	Canada	Audit Office
22	22-Malaysia Institute of Accountants	Malaysia	Member or Regional Body
23	23-Chartered Accountancy Academy and Training and Advisory Services	Zimbabwe	Member or Regional Body
24	24-Financial Reporting Council of Nigeria	Nigeria	Standard Setter/ Standards Advisory Body
25	25-EY	International	Accountancy Firm
26	26-Institute of Chartered Accountants of India	India	Member or Regional Body
27	27-Public Sector Accounting Standards Board of Kenya	Kenya	Standard Setter/ Standards Advisory Body