

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: June 12, 2023

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

PRESENTATION OF FINANCIAL STATEMENTS

Project summary	<p>This project is in the research phase. Research will be used to develop a project brief.</p> <p>The expected objective of this project is to enhance how information is communicated in the financial statements.</p>	
Meeting objectives	Topic	Agenda Item
Discussion Items	<p>CAG input into:</p> <ul style="list-style-type: none"> Project objective and final output Project scope Consultation Paper with illustrative Exposure Draft 	6.1
Other supporting items	IPSASB Due Process Checklist – Presentation of Financial Statements	6.2

Presentation of Financial Statements

Background

1. In July 2021, the IPSASB sought stakeholder input to determine which potential projects would be most important to its constituents in delivering the Strategy and Work Plan 2019-2023 and as a result, should be added to the work program.
2. In seeking stakeholder input, the IPSASB identified projects by applying the project prioritization criteria in the Strategy and drawing on stakeholder feedback obtained during its development. The IPSASB prioritized six projects for consideration by stakeholders, including Presentation of Financial Statements.
3. Based on the strong support received from respondents, in March 2022, the IPSASB added Presentation of Financial Statements to the work program. Initial research began in Q4 2022 to inform the development of a project brief.

Developing the Project Brief

4. Since adding Presentation of Financial Statements to the Work Program, the IPSASB has undertaken an initial research phase to ensure it understands the scope of public sector issues and the resource requirements, as well as what the intended output is in terms of Standards and/or guidance.
5. This research will result in a project brief to be developed in 2023. Given the complexity of the challenges identified in developing this project, the IPSASB wishes to obtain advice from CAG members on how to consider and reflect these challenges in the project brief.
6. The key challenges identified, which require further consideration by staff and the IPSASB, to inform the development of the future project brief are:
 - (a) Project objective;
 - (b) Project scope; and
 - (c) Consultation Paper with illustrative Exposure Draft.

Issue 1 – Project Objective

IFRS Update

7. IPSAS 1, *Presentation of Financial Statements* was issued in May 2000 and revised in December 2006. IPSAS 1 is drawn primarily from International Accounting Standard (IAS) 1 (Revised 2003), *Presentation of Financial Statements* issued by the International Accounting Standards Board (IASB).
8. Since its issuance, IAS 1 has been substantially revised as a result of:
 - (a) Substantial specific changes to IAS 1 in 2007, which included an amendment to the presentation of owner changes in equity and comprehensive income and a change in terminology in the titles of financial statements;
 - (b) IASB's Disclosure Initiative projects in 2014 and 2021; and
 - (c) Several consequential amendments to IAS 1 from other IASB projects related to the amendments in paragraph 8(a).

9. The IPSASB did not update IPSAS 1 in 2007 to maintain alignment with IAS 1 because the Board was unclear about the reason for categorizing some income/revenue as other comprehensive income.
10. As a result, many of the subsequent amendments to IAS 1 were not incorporated in IPSAS 1 because they impacted the paragraphs of IAS 1 that were no longer aligned with IPSAS 1.
11. As a consequence, the presentation of financial statements in IPSAS 1 is no longer aligned with the relevant requirements in IAS 1.
12. In December 2019, the IASB issued Exposure Draft ED/2019/7 General Presentation and Disclosures. The Exposure Draft includes the IASB's proposals to the presentation and disclosure of information in the financial statements, with a focus on information about performance in the statement of profit or loss.

Government Finance Statistics Update

13. In 2014, the International Monetary Fund issued the Government Finance Statistics Manual 2014 (GFSM 2014) with an enhanced analytical framework to support fiscal analysis, including four financial statements¹, that was not considered during the development of IPSAS 1.

IPSASB's Conceptual Framework

14. Also in 2014, the IPSASB published *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) with topics relevant for presentation of financial statements.
15. In 2023, the IPSASB published revised Chapter 5, *Elements in Financial Statements*, and Chapter 7, *Measurement of Assets and Liabilities in Financial Statements* of the Conceptual Framework, and is expected to approve revised Chapter 3, *Qualitative Characteristics*, in June.
16. Since the issuance of the Conceptual Framework in 2014, the IPSASB has not made a full review of IPSAS 1, *Presentation of Financial Statements*, including its recently updated chapters.

Evolution in Global Perspective

17. The way of presentation of financial statements is critical to the users of that information. Financial statements are the first touch point and very often the only touch point users have with the finances of a public sector entity. How useful the information is presented can have a significant impact on the usefulness of decision making. As noted in the IFRS and GFS updates above, the IPSASB's peers have evolved their views of financial statements presentation.
18. Given the evolution of presenting information in the financial statements, this presents the IPSASB with an opportunity to evaluate its presentation requirements and address the concerns raised by respondents to the 2021 Mid-Period Work Program Consultation to better the communication of information in financial statements to enhance the decision usefulness.
19. Based on the above reasons, staff is recommending the IPSASB the following project objective:

"Enhance how information is communicated in the financial statements."

¹ Statement of Operations, Statement of Other Economic Flows, Balance Sheet, and Statement of Sources and Uses of Cash.

CAG Question 1:

In addition to the sources identified, are there other sources the IPSAB should consider when enhancing how information is communicated in the financial statements?

Issue 2 – Project Scope

20. Developing guidance on the presentation of financial statements is an ambitious project that requires significant IPSASB resources. It is critical that the IPSASB scopes this project appropriately to be able to deliver in a timely manner.
21. Focusing this project on the scope of IPSAS 1 provides reasonable boundaries for the project. In response to the mid-period work program consultation, respondents agreed and supported the project to be limited to IPSAS 1.
22. Staff's recommendation of focusing on statements covered by IPSAS 1 means the following are in scope:
 - (a) Statement of Financial Position;
 - (b) Statement of Financial Performance;
 - (c) Statement of Changes in Net Assets/Equity; and
 - (d) Notes.

The project may make consequential amendments to other IPSAS, including IPSAS 2, *Cash Flow Statements*.

23. Focusing on the statements above should address stakeholder needs:
 - (a) As they form the complete set of financial statements for public sector financial reporting purposes in accordance with IPSAS 1; and
 - (b) Because of the linkages between all financial statements.
24. Staff also recommends the IPSASB scoping out of this project:
 - (a) The presentation of information that enhances, complements, and supplements financial statements.
 - (b) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; and
 - (c) IPSAS 24, *Presentation of Budget Information in Financial Statements*.

The guidance does not form part of the core of public sector financial reporting as per the IPSASB's Conceptual Framework.

25. Given the objective of the project to enhance how information is communicated in the financial statements, the scope of this project could easily become a drain on the IPSASB's limited resources and challenge the timely delivery of enhanced guidance. Staff's recommendation focuses on the immediate needs of users while enabling the IPSASB to deliver a pronouncement in a reasonable amount of time.

CAG Question 2:

Taking into account the resource constraints and the multiple perspectives on each topic, what is the CAG advice to manage and balance the constituents' views within the project scope?

Issue 3 – Consultation Paper (CP) with Illustrative Exposure Draft (ED)

26. In December 2019, the CAG provided the IPSASB with advice when it is appropriate to use a Consultation Paper with an illustrative Exposure Draft:
 - (a) When the IPSASB had developed several preliminary views;
 - (b) Considered only for complex projects; and
 - (c) Considered on a case-by-case basis.
27. At the December 2022 meeting, the IPSASB discussed three options on how this project may develop. The options present a spectrum of users' needs for financial information in the financial statements:
 - (a) IFRS Alignment;
 - (b) GFS Alignment; and/or
 - (c) Public Sector-Specific.
28. During the research and scoping phase of the project, staff identified flaws of developing:
 - (a) A Consultation Paper based on options of financial statements—it views each option as silo or mutually exclusive whereas it is possible from a conceptual and practical perspectives that the best solution may be a hybrid option of the proposals to be determined after public consultation.
 - (b) A solo Exposure Draft—it does not permit the IPSASB to mature its thinking and views on how the presentation of financial statements should be before committing to a formal Exposure Draft given the complexity of the topic and the wide range of perspectives to be discussed.
29. Staff did further analysis of the above three options and noted they all present financial information for the presentation of their financial statements by topic according to their own principles. The IPSASB's Conceptual Framework, published in 2014, also addresses topics that are relevant for presentation of information in the financial statements.
30. Therefore, staff is recommending the IPSASB develop a CP with an illustrative Exposure Draft (ED) following a topic-based approach as the first stage of this project because it would enable the IPSASB to:
 - (a) Address every topic in a holistic manner—for each topic it would be given full consideration of all perspectives given their complexity; and
 - (b) Mature its thinking and views on how the presentation of financial statements should be, given the most recent developments in both public and private sectors and the recently updated Conceptual Framework.
31. The CP would follow a topic-based approach following the table of contents of IPSAS 1 and any additional topics that will be included in the future Final Pronouncement.

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32. The CP would provide IPSASB's Preliminary Views on the main topics of the illustrative ED. The idea is to provide constituents with a clearer view of the IPSASB's direction of travel, by reflecting the ideas in the CP as an illustrative ED. By being more transparent about where the IPSASB's discussions, and the ideas in the CP, are leading, the staff hopes that the IPSASB gets better feedback on those ideas.
33. The CP with an illustrative ED is also an effective way to develop the different stages of the project. The Measurement project showed that the potentially longer time spent in developing the CP with the illustrative ED, it is expected that it will be more than compensated by the faster time in developing the ED in the second stage.
34. As with the Measurement project, it is proposed that the illustrative ED would be published as an addendum to the CP, and would include the core text, application guidance, basis for conclusions, and illustrative examples of financial statements.

CAG Question 3:

Does the CAG see any issues with the suggested approach? Are there aspects of an illustrative Exposure Draft the IPSASB should consider to enhance the responses to the Consultation Paper?

IPSASB Due Process Checklist (condensed to include portions relevant to the CAG)

Project: Presentation of Financial Statements

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	No	No Project Brief has yet been developed. The Presentation of Financial Statements project is in its research and scoping phase. At the June 2023 meetings, both the IPSASB and the CAG will discuss key issues that will inform the future Project Brief.
A2.	The IPSASB has approved the project in a public meeting.	TBD	[Pending]
A3.	The IPSASB CAG has been consulted on the project brief.	TBD	[Pending]
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	TBD	[Pending]
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	TBD	[Pending]
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	TBD	[Pending]
D. Consideration of Respondents' Comments on an Exposure Draft			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	TBD	[Pending]
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	TBD	[Pending]
D7.	If applicable, the IPSASB has voted on a resolution in favor of re-exposure.	TBD	[Pending]
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	TBD	[Pending]
D9.	If the exposure draft has been re-exposed, the explanatory memorandum accompanying the re-exposure draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.	TBD	[Pending]
<i>E. Approval</i>			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively the final standard is approved for issuance.	TBD	[Pending]
E2.	The IPSASB has approved the final revised content of the exposed standard in accordance with its Terms of Reference.	TBD	[Pending]
E3.	If applicable, the IPSASB has set an effective date for application of the final standard.	TBD	[Pending]
E4.	The IPSASB's basis for conclusions has been prepared and included in the final standard.	TBD	[Pending]

Completed by: IPSASB Staff as of June 2023.