

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: February 23, 2023

Agenda Item 3

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.	
Project Staff Lead	John Stanford, Senior Advisor	
Task Force members [Or 'Board sponsor' if applicable]	Ian Carruthers, IPSASB Chair (Board Sponsor)	
Meeting objectives	Topic	Agenda Item
Project management	Conceptual Framework–Limited Scope Update (CF-LSU)–Next Stage: Project Roadmap	3.1.1
	Instructions up to Previous Meeting	3.1.2
	Decisions up to Previous Meeting	3.1.3
Decisions required at this meeting	SMC 8: Binding Arrangements that are Equally Unperformed	3.2.1
	SMC 7: Unit of Account	3.2.2
	Does an Asset of the Reporting Entity Arise from Employee Services and Services In-kind?	3.2.3
	Post-December Changes to Chapter 5	3.2.4
Other supporting items	Updated Chapter 5, <i>Elements</i>	3.3.1

CONCEPTUAL FRAMEWORK NEXT STAGE: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
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
February 2023	1. Third Review of Responses to Exposure Draft 81 2. Discussion of Issues
March 2023	1. Fourth Review of Responses to Exposure Draft 81 2. Discussion of Issues 3. Review Revised Chapter 3, <i>Qualitative Characteristics</i> , 4. Approve Revised Chapter 5, <i>Elements in Financial Statements</i>

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April 2023	1. Publication of revised Chapter 7, Measurement of Assets and Liabilities in Financial Statements
May 2023	1. Publication of revised Chapter 5, Elements in Financial Statements
June 2023	1. Approve Revised Chapter 3, Qualitative Characteristics, and Chapter 5, Elements in Financial Statements
July 2023	1. Publication of Revised, Chapter 3, Qualitative Characteristics, and Chapter 5, Elements in Financial Statements

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2022	1. Carry out further analysis of whether, and, if so, when an asset of the reporting entity arises from employee services and services in-kind.	1. Agenda Item 3.2.3.
September 2022	1. No Instructions.	1. N/A
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
December 2022	<ol style="list-style-type: none"> 1. The definition of a liability proposed in ED 81, <i>Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements</i>, should be adopted in the updated Chapter 5. 2. The guidance proposed in ED 81 on a 'Transfer of Resources' in the context of a liability should be included in the updated Chapter 5. 3. The expanded and restructured guidance proposed in ED 81 on a liability, which aligns with the components of the revised definition approved under (a), should be included in the in the updated Chapter 5. 4. The rights approach to resources in the context of an asset proposed in ED 81 should be adopted in Chapter 5 subject to consideration of whether an asset of the reporting entity arises from employee services and services in-kind. 	<ol style="list-style-type: none"> 1. Paragraph BC 5.18H of Agenda Item 3.3.1. 2. Paragraph BC5.19E-BC5.19G of Agenda Item 3.3.1. 3. Paragraph BC 5.18J of Agenda Item 3.3.1. 4. Paragraph BC5.3H. On the issue of whether an asset of the reporting entity arises from employee services and services in-kind see Agenda Item 3.2.2.
September 2022	1. No decisions.	1. N/A
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. N/A

Binding Arrangements that are Equally Unperformed by Both Parties

Question

1. Does the IPSASB approve the recommendation in paragraph 2?

Recommendation

2. Board Sponsor and staff recommend that guidance on binding arrangements that are equally unperformed by both parties should be:

- (a) Included in the Conceptual Framework; and
- (b) Presented in a separate sub-section entitled 'Binding Arrangements that are Equally Unperformed' rather than in the sub-section on 'Unit of Account'.

The wording of the sub-section should be as exposed in ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements*, subject to minor drafting changes.

Background

3. The 2014 Conceptual Framework did not include guidance on executory accounting principles (or equivalent) as this was considered a standards-level issue. Subsequently the IPSASB's standards development suggested that high-level principles in the Conceptual Framework could provide a useful underpinning for standards level requirements.
4. Because of the public sector context, which was already reflected in terminology elsewhere in the Conceptual Framework, ED 81 adopted the term 'Accounting for Binding Arrangements that are Equally Unperformed' in Chapter 5, *Elements*. ED 81 also proposed that this guidance should be included in the sub-section on Unit of Account, rather than in a separate sub-section. The relevant paragraphs in ED 81 (5.26G and 5.26H) are shown at Appendix A together with the relevant paragraphs from the Basis for Conclusions.
5. Specific Matter for Comment (SMC) 8 asked for views on whether:
 - (a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and, if so,
 - (b) Whether such guidance should be included in the Unit of Account sub-section, rather than in a separate sub-section.

Approach in IASB literature

6. The IASB's 2018 Conceptual Framework included a subsection entitled 'Executory Contract Principles.' The paragraphs in ED 81 were drawn from this sub-section, amended for terminology.

Analysis

7. The quantitative summary of the responses on Specific Matter for Comment (SMC) 7 is in Table 1 overleaf.

Table 1—Responses to SMC 8: Guidance on Accounting for Binding Arrangements that are Equally Unperformed.

Response	Respondent s	
	#	%
Agree	11	41
Partially Agree: Location Only	7	26
Partially Agree: Location and Other Issue(s)	4	15
Disagree	2	7
Subtotal	24	89
No Comment	3	11
Total	27	100

Respondents agreeing

- Staff has classified eleven respondents (R03, R04, R07, R08, R09, R11, R12, R17, R23, R24, R27) as agreeing with both the proposed guidance in ED 81 and its location. There were no further issues raised by these respondents. R08, R11 and R12 all did not explicitly advocate that the guidance be in a separate subsection or section, but that there should be a subheading as in the Basis for Conclusions.

Respondents partially agreeing

- Staff has classified eleven respondents (R05, R06, R10, R13, R16, R18, R19, R20, R22, R25, R26) as partially agreeing with the guidance. All these respondents supported the inclusion of guidance but disagreed with its location in the Unit of Account sub-section, rather than in a separate sub-section, or felt that the Basis of Conclusions insufficiently explained the reasons for the location. Some noted that the location differed from the approach in the IASB's 2018 Conceptual Framework. Four of these respondents raised other issues (R05, R13, R16, R25) Staff has summarized and analyzed these additional issues in Table 2.

Table 2—Issues Raised by Respondents Partially Agreeing to Proposed Guidance on Accounting for Binding Arrangements that are Equally Unperformed

<i>Respondent</i>	<i>Comment</i>	<i>Analysis</i>
R13 <i>Need for neutral approach</i>	The guidance in the Conceptual Framework should be discussed in a neutral way. We urge the IPSASB to ensure it is not positioned for future Standards-level guidance, particularly on revenue. This would be inappropriate since the IPSASB is still discussing assets and liabilities from binding arrangements in a revenue transaction and we believe re-exposure is likely.	Staff and Board Sponsor consider that the guidance is not biased for a particular standards-level outcome. Apart from terminology the guidance is very close to that in the IASB's 2018 Conceptual Framework from which it is drawn.
R16, R25 <i>Terminology</i>	<p>Executory contracts is an established legal term that we believe is well understood; it is currently used in IPSAS 19 in the context of onerous contracts. Therefore, we do not see a need to describe executory contracts as something different. BC5.36F notes that the term 'contract' has been problematic in some jurisdictions and consequently that term has not been widely used in the CF. While this may be true, we think that a better alternative would be to retain the widely understood term 'executory contract' with the addition of '(or equivalent)'. We think this approach is more understandable and would be consistent with the terminology currently used in IPSAS 19. (R16).</p> <p>If 'executory contracts' is not appropriate, consider adopting a different term such as "unperformed binding arrangements". (R25).</p>	<p>The term 'binding arrangement' was adopted after considerable discussion during development of the 2014 Conceptual Framework to acknowledge jurisdictions where public sector entities cannot enter into contracts. Staff consider that it would be inappropriate to modify the term in a limited scope project.</p> <p>Staff does not think that a more short-hand term such as that advocated by R25 improves the guidance and it may be misleading because the guidance applies to binding arrangements that are partially but equally unperformed by both parties as well as those that are completely unperformed.</p>
R05 <i>Further Examples</i>	To the extent that this is consistent with the nature and style of a Conceptual Framework, further exemplifications would also be helpful.	Staff consider that the principles in the guidance are clear and that examples should be provided at the standards level.

Respondents disagreeing

10. Two respondents (R05 & R21) have been classified as disagreeing with the proposed guidance.

Table 3—Issues Raised by Respondents Disagreeing with Proposed Guidance on Accounting for Binding Arrangements that are Equally Unperformed

Respondent	Comment	Analysis
R01 <i>Lack of clarity on purpose of guidance</i>	Struggling to see what conceptual problem the Board is trying to solve here; hence we are wondering whether such addition is really necessary.	The purpose of the guidance is to provide principles for specified binding arrangements.
R01 <i>Reference to executory contracts</i>	Should guidance on binding arrangements that are equally unperformed be retained, we would recommend that there should be a reference to executory contracts at least in the BCs to tie back to the IASB's Conceptual Framework.	Paragraphs BC5.36E and BC5.36F discuss the terminology in the IASB 2018 Conceptual Framework and the reason for adopting the term 'binding arrangement' rather than 'executory contract'.
R01 <i>Lack of clarity in drafting</i>	Paragraphs 5.26G and 5.26H could be explained more clearly. This is because references to "combined right and obligation to exchange resources" and "the terms of the exchange are currently favourable" in the context of an arrangement where "both parties have partially fulfilled their obligations to an equal extent" is highly confusing when applied to transactions in the public sector.	These paragraphs are drawn from the IASB 2018 Conceptual Framework. Although the topic is quite complex staff are unclear how it can be improved. Staff also have reservations about the consequences of departing from the IASB wording when there is no clear public sector reason.
R21	Concerns with the introduction of "rights" by the ED. If paragraphs 5.26G and 5.26H are edited and "rights" are removed, the guidance will strictly cover binding arrangements over obligations, and these are currently covered in other IPSAS standards, such as IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets, therefore we do not agree that additional guidance is required.	Disagreement with 'rights' discussed in Agenda Item 3.2.2. No change proposed.

Way Forward

11. There was strong support for the insertion of the guidance on accounting for binding arrangements that are equally unperformed. However, many respondents commenting on this SMC disagreed with the location or considered that the IPSASB had not explained sufficiently the inclusion of the guidance in the subsection on Unit of Account rather than in a separate sub-section.
12. Staff and Board Sponsor accept the view that the guidance on accounting for binding arrangements that are equally unperformed has a broader impact than aggregation/disaggregation for presentational purposes.
13. Staff and Board Sponsor therefore propose that the guidance should be in a separate sub-section. The paragraphs have been relocated Staff also accepts that the rationale in the Basis for Conclusions is more an assertion than a rationale. A revised paragraph has been inserted in the Basis for Conclusions, explaining that, as a result of the consultation on ED 81 the IPSASB decided to relocate the guidance to its own sub-section.

Decision Required

14. Does the IPSASB agree with the Board Sponsor and staff recommendation in [paragraph 2?](#)

Appendix A

PARAGRAPHS 5.26G & 5.26H ON BINDING ARRANGEMENTS THAT ARE UNPERFORMED OR EQUALLY PERFORMED BY BOTH PARTIES) AND BASIS FOR CONCLUSIONS

CORE TEXT

Extract from Unit of Account Section

5.26G Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favorable; it has a liability if the term of the exchange are currently unfavorable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 6) and the measurement basis selected for the asset and liability (see Chapter 7).

5.26H To the extent that either party fulfills its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.

Basis for Conclusions

Executory Contracts

BC5.35E The IPSASB 2014 Conceptual Framework does not include guidance on executory contracts. In the Limited Scope Update, the IPSASB evaluated whether guidance should be added to the Conceptual Framework.

BC5.35F The IASB 2018 Conceptual Framework describes an executory contract is as 'a contract or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.'

BC5.35G The IPSASB noted that the term 'contract' has been problematic in some jurisdictions. This is because some public sector entities may not have powers to enter into contracts, although they may be able to enter into other binding arrangements. Consequently, the term 'contract' has not been used widely in the Conceptual Framework. At the standards level the term 'binding arrangement' has been generally used. The IPSASB has used this term in the Conceptual Framework. The IPSASB concluded that the principles of accounting for binding arrangements that are equally unperformed could be incorporated in the section on Unit of Account and that a separate section was unnecessary.

BC5.35H Most respondents to ED 81 supported the inclusion of guidance on accounting for binding arrangements that are equally unperformed. However, a number disagreed with then location of

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this guidance in the section of Unit of Account. They considered that the implications of the guidance extended beyond considerations related to unit of account to include areas such as the definition of an asset and a liability. They encouraged the IPSASB to relocate the guidance to a separate sub-section. The IPSASB accepted the views of these respondents and decided to relocate the guidance to a separate sub-section in paragraphs 5.26I and 5.26J.

Unit of Account

Question

- Does the IPSASB approve the recommendation in paragraph 2?

Recommendation

- Board Sponsor and staff recommend that guidance on unit of account as exposed in ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements*, should be included in revised Chapter 5 subject to minor editorial amendments and the relocation to a separate sub-section of the paragraphs on binding arrangements that are that are unperformed or equally performed by both parties (discussed in Agenda Item 3.2.1).

Background

- The 2014 Conceptual Framework did not include guidance on unit of account as it was considered a standards-level issue. Subsequently the IPSASB's standards development suggested that high-level principles on unit of account in the Conceptual Framework could provide a useful underpinning of consideration of standards level requirements. ED 81 therefore proposed insertion of a sub-section on unit of account in Chapter 5, *Elements*.
- ED 81 also proposed that the sub-section should include guidance on accounting for binding arrangements that equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent. The subsection is in Appendix A.
- Specific Matter for Comment (SMC) 7 asked for views on the proposed new guidance.

Approach in IASB literature

- The IASB's 2018 Conceptual Framework included a subsection 'Unit of Account.' The paragraphs in ED 81 were drawn from this subsection. Several paragraphs were only modified for the public sector context. Certain paragraphs were shortened and a paragraph (4.55) giving examples of possible units of accounts was not included. While in the Elements chapter, the IASB's subsection on Executory Contracts was separate and not part of the Unit of Account subsection.

Analysis

- The quantitative summary of the responses on Specific Matter for Comment (SMC) 7 is in Table 1 below.

Table 2—Responses to SMC 7: Guidance on Unit of Account

Response	Respondents	
	#	%
Agree	21	78
Partially Agree	3	11
Disagree	1	4
Subtotal	25	93
No Comment	2	7
Total	27	100

Respondents agreeing

8. 21 respondents (R01, R03, R05, R06, R07, R08,R09, R10, R11, R12, R13, R16, R17, R18, R19, R22, R23, R24, R25, R26, R27) have been classified as agreeing with the proposed guidance in ED 81. Table 2 summarizes and analyzes issues raised by these respondents.

Table 2—Issues Raised by Respondents Agreeing with Proposed Guidance on Unit of Account

Respondent(s)	Comment	Analysis
R01/R05 <i>Perceived mitigation of rights-based approach and relationship with definitions of assets and liabilities</i>	<p>Agree that this section is critical, especially with a view to mitigate the impact of the introduction of the rights-based approach for operations involving physical assets that are specific to the public sector. We believe that this objective should be clearly mentioned as such. (R01).</p> <p>The definition of the unit of account is based on the definitions of assets and liabilities and then on “rights” and “obligations”. Therefore, please see our comments on SMC 3 regarding both the rights-based approach per se and the need to further explore its implications for the unit of account. (R05).</p>	<p>In guidance on the definition of an asset earlier in the chapter, paragraph 5.7F states that ‘in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset.’ The IPSASB approved this guidance in December 2022.</p> <p>The objective of this sub-section is to enhance the provision of useful information not to mitigate the impact of a more overtly rights-based approach to assets. Staff do not therefore advocate any change.</p>
R07 <i>Binding obligations arising from the same source (proposed paragraph 5.26F)</i>	<p>Agrees with the addition of a section on the Unit of Account. It also agrees with the content, except for paragraph 5.26F. As all binding arrangements generate rights and obligations, in the second sentence the word «some» should be omitted. Requests that the first sentence in this paragraph also be reviewed. The meaning of «sometimes» is not clear, because rights and duties do not arise only sometimes.</p>	<p>This paragraph is drawn from paragraph 4.53 of the IASB 2018 Conceptual Framework with ‘contract’ replaced by ‘binding arrangement’.</p> <p>Although the wording mirrors that in the IASB 2018 Conceptual Framework, staff agree with the deletion of ‘some’ in the second sentence.</p> <p>The use of ‘sometimes’ needs to be read in the context of the full opening sentence- ‘Sometimes, both rights and obligations arise from the same source’. Staff do not advocate any change.</p>

<p>R13</p> <p><i>Minority view of stakeholders contributing to the response</i></p>	<p>Supports the inclusion of guidance on unit of account in the Conceptual Framework.</p> <p>It is important for the Conceptual Framework to provide the principles on unit of account, and we are pleased that these principles also apply to General Purpose Financial Reports.</p> <p>Minority of stakeholders are concerned that the guidance is rules-based, instead of principles-based. They believe the parts of the guidance that are useful [5.26D(b) and 5.26E] are already included elsewhere in the Conceptual Framework.</p>	<p>Minority view noted.</p> <p>Staff does not consider that the guidance is rules-based and notes that some respondents also requested additional examples in order to illustrate the principles. Consistent with the general approach of leaving examples to standards level, staff does not advocate any change.</p>
<p>R16</p> <p><i>Replacement of term 'executory contracts'</i></p>	<p>Not necessary for the IPSASB to remove the commonly known term "executory contracts" in paragraphs 5.26G-5.26H and refer instead to only a "binding arrangement that is equally unperformed". While we can appreciate the problem with using the term "contract" in some jurisdictions, we think there are better ways to address this issue than what is currently proposed in these paragraphs. We think that the IPSASB could call them "executory contracts (or equivalent)" and retain the wording used currently in the IASB CF. We think this would be more understandable and also would better align the current terminology used in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets (IPSAS 19).</p>	<p>Issue considered in Agenda Item 3.2.1.</p>

<p><i>R19/R22</i> <i>Non-inclusion of examples</i></p>	<p>Notes that paragraph 4.55 in the IASB 2018 Conceptual Framework, which provides examples of possible units of accounts, was not included in the IPSASB Conceptual Framework because IPSASB's view is that the examples were too low level and unnecessary. Although IPSASB acknowledges that this guidance is available at the standards level, the guidance on unit of account introduces a new concept to stakeholders, and examples on possible units of accounts specific to the public sector might be helpful to determine which unit of account to use, particularly in paragraphs 5.26B and 5.26C. (R19)</p> <p>Clear guidance and application examples should be provided for better understanding of the concept of Unit of Account. (R22)</p> <p>Although we agree with the additions made by the IPSASB with respect to unit of account but it is still felt hat this concept can be better addressed with the help of specific examples at Standards level. (R26).</p>	<p>View noted, but consistent with the overall approach, staff does not advocate making any change.</p>
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Respondents partially agreeing

9. Three respondents (R04, R15 and R20) have been classified as partially agreeing with the revised guidance. Table 3 summarizes and, analyzes issues raised by these respondents.

Table 3—Issues Raised by Respondents Partially Agreeing to Proposed Guidance on Unit of Account

Respondent	Comment	Analysis
R04 <i>Commitment to address unit of account issues and greater guidance</i>	It would be useful for the Framework either to commit to address unit of account question in each of the individual standards or to include a rebuttable presumption about the unit of account and acknowledging that there may be exceptions in individual standards that would be elaborated upon. Also, the revised Conceptual Framework would benefit from guidance on when items should be individually analysed and when portfolio approach might be a correct one.	Staff does not think that such a commitment is either necessary or useful. The Framework provides considerations to be taken into account in determining a unit of account rather than going into further detail.
R04 <i>Different Units of Account for Recognition and Measurement</i>	<p>Guidance indicates that there may be different units of account justified for recognition and measurement, however the guidance does not further elaborate on such circumstances. It might be helpful to provide some further context on why this might be appropriate either through an example or additional explanation.</p> <p>The Conceptual Framework should specify that the unit of account when considering recognition should be the same as when considering measurement.</p>	<p>Paragraph 5.26B notes that 'arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements.' Staff consider that this exemplification is sufficient.</p> <p>Staff do not think that it is appropriate to introduce such a rule. However, it is likely that the basis for conclusions of a new or amended standard will explain requirements and guidance on unit of account and provide the rationale if the unit account for recognition differs from that for measurement.</p>

<p>R15</p> <p><i>Guidance open to different interpretations</i></p>	<p>The guidance is open to different interpretation for use. It looks as if an entity can decide what suits them as unit of account. We believe the guidance should focus more on what would constitute a unit of account below which the asset would not be regarded as unit of account. For example a building would be regarded as a unit of account if there are not other separately identifiable assets within that building. However, if the elevator is considered a unit of account separate from the building for depreciation purposes then it can be separately recognised from the building. In essence, the guidance should focus on what would constitute the smallest unit of account for purposes of recognition and measurement.</p>	<p>The guidance aims to provide principles for the IPSASB when developing requirements and guidance on unit of account and for preparers when developing accounting policies. The issues raised by R15 are too low level for the Conceptual Framework, which should not provide an inventory of possible units of account.</p>
<p>R04</p> <p><i>Accounting for rights over a controlled entity (subsidiary)</i></p>	<p>An entity can change its structure by making, for example, a spin-off or selling a part of a subsidiary. This example would accordingly mean that an entity should not treat all its rights over a subsidiary as a single unit of account. Instead, the unit of account should be a subgroup of rights and obligations that are related to a particular activity of a subsidiary. Whereas the rights that give control of a subsidiary would generally expire in similar patterns, the rights and obligations of a subsidiary will generally expire at different points in time. Thus, the rights and obligations of a subsidiary should not be treated as a single unit of account. Instead, the unit of account should be a subgroup of rights and obligations that are related to a particular activity of a subsidiary.</p>	<p>This is a standards level issue. It is inappropriate for the Framework to go into detail on accounting for rights and obligations of controlled entities (subsidiaries).</p>

<p>R20</p> <p><i>Examples are overly focused on binding arrangements</i></p>	<p>It is noted that the examples provided throughout the Exposure Draft refer to binding arrangements, and it is appreciated that the recent changes introduced to IPSAS in respect of these arrangements have given rise to the need to clarify many issues. However, Governments also need to apply these requirements to PPE (and elsewhere) and some examples of their application in other contexts may be helpful.</p> <p>As with the introduction of rights as the basis for recognition of assets, the concept of a single unit of account changing from asset to liability based on an underlying performance agreement with a third party appears difficult to understand and to apply. Again, it is hard to see how this complexity contributes to the Understandability of the financial statements in respect of core resources such as PPE. However much it may support the Faithful Representation of complicated arrangements between Governments and third parties, in Public Private Partnerships (PPP) or service concession agreements.</p> <p>A review of material online relating to the IASB, from which IPSASB has adopted this concept, indicates that the Unit of Account is usefully applied to financial assets and contractual arrangements and is not necessarily applied to fixed assets.</p>	<p>The view that the guidance is overly focused on binding arrangements may be partially due to the inclusion of the two paragraphs on binding arrangements that are unperformed or equally unperformed by both parties. Staff propose in agenda item 3.2.1 that these paragraphs are relocated to a separate subsection.</p> <p>The IPSASB 2014 Conceptual Framework does not discuss unit of account and underlying performance agreements with third parties.</p> <p>In discussing the adoption of different units of account for recognition and measurement paragraph 5.26B uses an example of binding arrangements that may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. However, while the determination of unit of account for financial instruments is likely to give rise to complex considerations the subsection does not specify that unit of account guidance only applies to certain assets.</p> <p>No change is proposed.</p>
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Respondents disagreeing

- Staff have classified R21 as disagreeing with the revised guidance. R21 considers that the guidance adopts the rights-based approach to an asset with which the respondent disagrees. The IPSASB considered this issue at the December meeting and confirmed adoption of a more overtly rights-based approach. Staff does not propose that the Board redeliberates this issue.

Way Forward

11. There was strong support for the proposed guidance. In Agenda Item 3.2.1 Staff and Board Sponsor propose that paragraphs 5.26G and 5.26H should be relocated to a separate sub-section (see paragraphs 5.26I and 5.26J in Agenda Item 3.3.1). Apart from this the consultation has raised only minor drafting issues that will be addressed in finalization.

Decision Required

12. Does the IPSASB agree with the Board Sponsor and staff recommendation in [paragraph 2?](#)

Appendix A

SUBSECTION ON UNIT OF ACCOUNT IN ED 81 (PARAGRAPHS 5.26G & 5.26H PROVIDE GUIDANCE ON BINDING ARRANGEMENTS THAT ARE UNPERFORMED OR EQUALLY PERFORMED BY BOTH PARTIES) AND BASIS FOR CONCLUSIONS (UNIT OF ACCOUNT ONLY)

CORE TEXT

Unit of Account

- 5.26A The unit of account is 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.
- 5.26B A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related revenue and expense. In some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. For presentation and disclosure, assets, liabilities, revenue and expense may need to be aggregated or separated into components.
- 5.26C If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account.
- 5.26D A unit of account is selected to provide useful information, which implies that:
- (a) The information provided about the asset or liability and about any related revenue and expense must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating, each right or obligation as a separate unit of account if, for example, those rights and obligations:
 - (i) Cannot be or are unlikely to be the subject of separate transactions;
 - (ii) Cannot or are unlikely to expire in different patterns;
 - (iii) Have similar characteristics and risks; or
 - (iv) Are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows.
 - (b) Information provided about the asset or liability and about any related revenue or expense must faithfully represent the substance of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source. Equally, to provide a faithful representation of unrelated, rights or obligations, it may be necessary to recognize and measure them separately.
- 5.26E In selecting a unit of account it is also important to consider the cost-benefit constraint of financial reporting discussed in Chapter 3. In general, the costs associated with recognizing and measuring

assets, liabilities, revenue and expense increase as the size of unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

- 5.26F Sometimes, both rights and obligations arise from the same source. For example, some binding arrangements establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account.
- 5.26G Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favorable; it has a liability if the term of the exchange are currently unfavorable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 6) and the measurement basis selected for the asset and liability (see Chapter 7).
- 5.26H To the extent that either party fulfills its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.
- 5.26I Conversely, if rights are separable from obligations, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account, treating them as a single asset or a single liability.
- 5.26J Treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Offsetting occurs when an entity recognizes and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

Basis for Conclusions

Unit of Account

- BC5.36A The IASB 2018 Conceptual Framework describes unit of account as '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 management concepts are applied.'
- BC5.36B The IPSASB took the view that unit of account was a standards-level issue during the development of the 2014 IPSASB Conceptual Framework and there was no guidance on unit of account. Since 2014 the importance of decisions on the unit of account has been highlighted in a number of projects and led the IPSASB to re-evaluate the case for high-level guidance.

BC5.36C The IPSASB decided that guidance in the Conceptual Framework would be beneficial in informing standards-level requirements and guidance on unit of account. The IPSASB drew on the IASB 2018 Framework for this guidance, which is in paragraphs 5.26A-5.26J. The guidance on consideration of how the selection of a unit of account provides useful information in the IASB 2018 Conceptual Framework is in the context of the qualitative characteristics of relevance and faithful representation. The IPSASB took the view that other QCs may need to be taken into account in assessing whether information is useful in determining the unit of account.

Does an Asset of the Reporting Entity Arise from Employee Services and Services In-kind?

Question

1. Does the IPSASB approve the recommendation in paragraph 2?

Recommendation

2. Board Sponsor and staff recommend that the guidance in paragraph 5.7C of Chapter 5, *Elements*, that some goods and services that are received and immediately consumed give rise to a right to obtain economic benefits and therefore very briefly an asset should be retained.

Background

3. In its guidance on a right in ED 81, *Conceptual Framework Update and Chapter 3, Qualitative Characteristics and Chapter 5, Elements* the IPSASB stated in paragraph 5.7C that some goods and services that are received and immediately consumed give rise to a capability to obtain economic benefits and therefore very briefly an asset. In further development of the Conceptual Framework the IPSASB accepted a respondent's view that 'capability' should be replaced by 'right'. This is consistent with the title and context of the sub-section- 'Rights' in the guidance on an Asset.
4. Some respondents to Specific Matter for Comment 3 (Rights-Based Approach to a Resource) in ED 81 challenged the paragraph, and also questioned whether it was appropriate to include it in the guidance on 'Rights'. The IPSASB instructed staff to carry out a further analysis of this issue.

Approach in IASB literature

5. The IASB's 2018 Conceptual Framework included a paragraph (4.8) that:

Some goods and services-for example, employee services-are received and immediately consumed. An entity's right to obtain the economic benefits produced by such goods and services exist momentarily until the entity consumes the goods or services.
6. The Basis for Conclusions (paragraph BC4.37) explained:

The 2018 Conceptual Framework clarifies that goods or services that are received and immediately consumed create a momentary right to obtain the economic benefits produced by those goods and services. That right exists momentarily until the goods or services are consumed, at which point the consumption is recognized as an expense. This is consistent with IFRS 2 Share-based Payments, which treats employee services received as an asset that is immediately consumed.
7. The IPSASB drew on paragraph 4.8 in its own guidance. The example of 'services in kind' was added to 'employee services', to give the discussion further public sector relevance. The IPASB changed the word 'momentarily' to 'very briefly'. IPSASB does not have an equivalent standard to IFRS 2 so there is no reference to standards level literature in the Basis for Conclusions.

Analysis

8. Staff consider that the statement in paragraph 4.8 of the IASB 2018 Conceptual Framework is rooted in the assets and liabilities-led nature of the IASB's reporting model. Under such a model income and expense arise from changes in assets and liabilities. Under such a model an asset or liability must be created in order for an income or an expense to arise.

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9. In its 2010 Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*, the IPSASB discussed approaches to reporting financial performance—see Chapter 4. The IPSASB compared and contrasted A&L and revenue and expense-led (R&E) reporting models.
10. The IPSASB explained that the A&L-led approach measures financial performance as the net result of all changes in the entity's resources and obligations during the reporting period. In contrast, the R&E-led approach measures financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period.
11. Although the IPSASB has not overtly adopted a particular model, the IPSASB's approach is much closer to the A&L-led approach than the R&E-led approach. Staff therefore conclude that paragraph 5.7C is compatible with the IPSASB's general approach to reporting financial performance.

Way Forward

12. On balance staff favors retention of paragraph 5.7C in Chapter 5 because the issue of the consumption of goods or services has arisen in standards-level development and therefore guidance is helpful. Although development and maintenance of the Conceptual Framework is not an alignment project deleting paragraph 5.7C at this stage will create a difference with the IASB Conceptual Framework, which cannot be easily explained.

Decision Required

13. Does the IPSASB agree with the Board Sponsor and staff recommendation in [paragraph 2?](#)

Changes from December Version of Revised Chapter 5, *Elements in Financial Statements*

Question

1. Does the IPSASB approve the recommendation in paragraph 2?

Recommendation

2. Board Sponsor and staff recommend that members agree the changes to draft revised Chapter 5, *Elements in Financial Statements* with a view to approving revised Chapter 5).

Background

3. At the December meeting the IPSASB considered the responses to Specific Matters for Comment 1-4 in Exposure Draft (ED) 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements*, should be adopted in the updated Chapter 5;
4. Subject to editorial changes the IPSASB decided to retain the following as exposed in ED 81:
 - The definition of a liability;
 - The guidance on a 'Transfer of Resources' in the context of a liability;
 - The expanded and restructured guidance on a liability, which aligns with the components of the revised definition of a liability; and
 - The rights approach to resources in the context of an asset.

Changes to December version

5. The main change to the version to the version considered by the IPSASB at the December 2022 version is that staff has relocated the paragraphs on Accounting for Binding Arrangements that are Equally Unperformed to a separate sub-section (paragraphs 5.26I and 5.26J). This change reflects the Board Sponsor and Staff recommendation in Agenda Item 3.2.1. Paragraphs BC5.35H in the Basis for Conclusions has also been updated to explain why the IPSASB decided to relocate the guidance. A minor change has also been made to paragraph BC5.35G.
6. There are also marked-up changes in the following paragraphs:
 - **Paragraph 5.7(a)(ii):** Footnote expanded.
 - **Paragraph 5.7(c):** 'Capability' changed to 'right'.
 - **Paragraph 5.17A(a):** Footnote added that 'in the public sector a present obligation can arise from an obligation imposed by a higher level of government.'
 - **Paragraph 5.17B:** Editorial changes to emphasize that an entity cannot be obligated to itself as a result of a public communication.
 - **Paragraph 5.17D:** Minor editorial.
 - **Paragraph 5.26F:** Deletion of 'some' from second sentence.
 - **Paragraphs BC5.3G and 5.3H.** Addition of paragraphs explaining reservations of some respondents on the more overtly rights-based approach to assets and the IPSASB's reasons for retaining this approach.

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- **Paragraph BC 5.18:** Addition of closing sentence that 'The updated definition of a liability and supporting guidance does not affect either the discussion of sovereign powers and rights or the key principle that an asset arises when the power is exercised, and the rights exist to receive resources.'
- **Paragraph BC5.18H:** Addition of paragraph explaining the IPSASB's decision to adopt the revised definition of a liability as proposed in ED 81.
- **Paragraph BC5.18J:** Notes strong support for reconfiguration of guidance on a liability and that the IPSASB decided to adopt this guidance in revised Chapter 5.
- **Paragraph BC 5.19E:** Insertion of an explanation that 'the IPSASB has deleted guidance in the 2014 Conceptual Framework that if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before these events occur.' This is because it was inconsistent with the statement in paragraph 5.16A. that 'to satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties).'
- **Paragraph BC 5.19F:** Insertion of an explanation that the IPSASB decided to retain the word 'transfers' in the revised definition of a liability.
- **Paragraph BC5.19G:** Insertion of an explanation that the IPSASB acknowledges the importance of the Treasury Single Account, but that it is too low level a topic to be addressed in the Conceptual Framework.

Way Forward

7. Board Sponsor and Staff consider that reviewing these changes at this meeting will position the Board to approve the revised Chapter 5 at the March 2023 meeting.

Decision Required

8. Does the IPSASB agree with the Board Sponsor and staff recommendation in [paragraph 2?](#)