

International Public Sector Accounting Standards Board

The Conceptual Framework

John Stanford
Deputy Director
IPSASB

World Bank PemPal Program

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Conceptual Framework: Background (1)

- Purpose:
 - Establishes concepts to be applied in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs)
 - IPSAS: financial statements
 - RPGs: financial reports other than financial statements
 - Provides guidance for preparers of general purpose financial reports (GPIFRs) of public sector entities where no IPSAS
- Project initiated in 2006 and accelerated in 2009

Conceptual Framework: Background (2)

- Four phases
 1. Role and Authority; Objectives of Financial Reporting; Qualitative Characteristics: Reporting Entity
 2. Elements and Recognition (Financial Statements)
 3. Measurement (Financial Statements)
 4. Presentation
- Not an interpretation of IASB Framework or IFRS convergence project
 - Number of respondents to recent EDs have challenged approach
 - Defer until IASB project complete
 - Adopt same elements as IASB with definitions modified to reflect public sector
 - Adopt same definitions as IASB, but
 - Some explicit and implicit support for distancing from IASB Framework

Conceptual Framework: Background (3)

- Due Process involves Consultation Papers and Exposure Drafts
 - Exposure Drafts: Phases 2 and 3: November 2012 (consultation period ended April 30th 2013)
 - Exposure Draft: Phase 4: April 2013 (consultation period ended August 15th 2013)
- Phase 1 Chapters: Approved in December 2012 and published on January 11th 2013
 - Chapter 1: Role and Authority of the Conceptual Framework
 - Chapter 2: Objectives and Users of General Purpose Financial Reporting
 - Chapter 3: Qualitative Characteristics
 - Chapter 4: Reporting Entity
- Aim to finalize Conceptual Framework: 2014

Preface: Key Characteristics of Public Sector

- Preface highlights:
 - Involuntary Transfers and Non-Exchange Transactions
 - Importance of Approved Budget
 - Nature and Purpose of Assets in Public Sector
 - Longevity of the Public Sector and the Nature of Public Sector Programs
 - Regulatory Role of Public Sector Entities
 - Importance of Statistical Bases of Accounting
- ED, *Key Characteristics of Public Sector with Potential Implications for Financial Reporting*: April 2011
- Preface issued as Preliminary Board View: July 2013
 - On website

Phase 1 (1)

- Role and Authority of Framework
 - Does not establish authoritative requirements
 - Does not override the requirements of IPSASs
 - Prioritized program to address dislocations once Framework finalized
 - GPFRs intended to meet information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs
- Objectives and Users
 - Provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes
 - Primary users:
 - Service recipients and resource providers and their representatives
 - Legislature in capacity as a representative of service recipients and resource providers

Phase 1 (2)

- **Qualitative Characteristics**
 - Faithful representation, relevance, understandability, timeliness, comparability and verifiability
 - Prudence not a QC
 - Reflected in neutrality as a component of faithful representation
 - Reliability superseded by faithful representation
 - Not intended to indicate that fair value only measurement basis compatible with faithful representation
 - No distinction between fundamental and enhancing QCs (differs from Chapter 3 of IASB Framework)
- **Constraints on Information Included in General Purpose Financial Reports**
 - Materiality, Cost-Benefit and Balance between QCs
 - Materiality not entity-specific

Phase 1 (3)

- Reporting entity
 - Key characteristics of public sector reporting entity:
 - Raises resources from, or on behalf of, constituents, and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
 - Service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes
 - Will often be legal entity but not essential characteristic

Elements and Recognition

- Objective: Develop elements for financial statements
 - Does not deal with GPFRs outside financial statements
- Elements proposed
 - Assets
 - Liabilities
 - Revenue
 - Expenses
 - Deferred Inflows
 - Deferred Outflows
 - Ownership Contributions
 - Ownership Distributions
- Net assets and net financial position

Essential Characteristics of Elements(1)

- **Assets**
 - Physical form not necessary
 - Past transaction or other event
 - Control of the resource at the reporting date
 - In definition rather than recognition criterion
 - Indicators of control :
 - (a) legal ownership; (b) access to or the ability to limit access; (c) the means to ensure resources are used to achieve its objective; and (d) enforceable rights to service potential or economic benefits.

- **Liabilities**
 - Legally binding (or equivalent) obligations and some non-legal obligations
 - Indications to other parties
 - Valid expectations of other parties
 - Little or no realistic alternative to avoid settling the obligation
 - Past event

Essential Characteristics of Elements (2)

- Deferred Inflows and Outflows
 - Separate elements to distinguish flows related to the reporting period from flows related to another reporting period
 - Restricted to certain non-exchange transactions with stipulations on the reporting period in which they are to be used
 - When the specified future reporting period occurs, flows no longer deferred
 - Decrease in a deferred inflow recognized as revenue.
 - Decrease in a deferred outflow would be recognized as an expense
- Alternative Views

Essential Characteristics of Elements (3)

- Approach aligns with annual budgets?
- Revenue recognition analogy
 - Performance obligations v. passage of time
- Majority of respondents not supportive of elements for deferred inflows and deferred outflows
- Range of views on best approach
 - Modify definitions of asset and liability
 - Rely on presentation
- Need for more consideration of financial performance and financial position in public sector.

Essential Characteristics of Elements (4)

- Revenue & Expenses
 - Focus on current reporting period-articulation with deferred inflows and deferred outflows
 - Definitions more complex than those derived from Assets & Liabilities-Led Approach
 - Definitions dependent upon decisions on deferred inflows and deferred outflows

Essential Characteristics of Elements (5)

- Ownership Contributions and Distributions
 - Distinguish contributions made by owners and distributions received by owners in their role as owners from other transactions
 - Ownership interests not defined
 - May arise on, or after, the creation of an entity
 - Can take different forms which may not be equity interests
 - Sometimes linked to restructuring of government and take form of transfers of assets and liabilities rather than cash transactions
- Tentative decision to define Ownership Contributions and Distributions not Ownership Interests

Recognition

- **Existence uncertainty**
 - Addressed by assessing the available evidence in order to make a neutral judgment about whether an element exists,
 - No thresholds proposed
 - Should Framework acknowledge that thresholds might be introduced at standards level?
- **Measurement uncertainty**
 - Use of estimates is an essential part of the accrual basis of accounting
- **Derecognition**
- **Separation of definitions and recognition criteria**

Measurement

- Objective:
 - Identify the measurement concepts that will guide the IPSASB in the selection of measurement bases for IPSASs
 - Guide preparers where no requirements in IPSASs
- Evaluates measurement bases against objectives of financial reporting and assesses extent to which information on a particular measurement basis meets the QCs.
 - Financial Capacity
 - Operational capacity
 - Cost of services

Key Issues in Measurement

- **Historical cost and accountability**
 - A cultural divide?
- **Entry and exit values**
 - Public sector service delivery objectives
- **Fair value**
 - In IFRS 13 an exit based definition
 - Suitability of IFRS 13 definition for public sector entities
 - Similarity between market value and fair value
 - Fair value not proposed as measurement basis
- **Alternative View**
 - Need for clearer articulation of measurement objective
 - Select those measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes

Current Measurement Bases for Assets

- **Market Value**
 - Amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction at the reporting date.
- **Replacement cost**
 - Most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.
- **Net selling price**
 - Amount that the entity can obtain from sale of the asset at the reporting date, after deducting the costs of sale
- **Value in use**
 - Present value at the reporting date to the entity of the asset's remaining service potential or economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life

Models for Selection of Measurement Bases

- Fair value model
 - Fair value not proposed as measurement basis in own right
 - Market value appropriate measurement basis but market inactive
 - Estimates price at which a transaction to sell the asset would take place in an open, active and orderly market at the measurement date under current market conditions
- Deprival value model
 - Facilitates selection or confirmation of a current measurement basis
 - Consideration of three measurement bases—replacement cost, net selling price and value in use
- Respondents generally unfavorable
- Tentative view in June not to include in final chapter

Measurement Bases for Liabilities

- **Historical cost**
 - Value of the amount received in the transaction under which the obligation is assumed
- **Market value**
 - May be appropriate where liabilities are traded in open, active and orderly markets, such as on organized exchanges
- **Cost of release**
 - Similar to net selling price
 - Immediate exit from the obligation
- **Cost of fulfillment**
 - Current value of fulfilling the obligations represented by the liability
 - Making required payments/providing goods and services
- **Assumption price**
 - Similar to replacement cost
 - Amount which entity would rationally be willing to accept in exchange for assuming an existing liability

Conceptual Framework: Presentation

- Adopts broad scope perspective
 - Challenging as much
 - recent work on financial statements addresses “disclosure clutter” and Other Comprehensive Income
- ED issued: April 2013
- Displayed Information
 - Communicates key messages
- Disclosed information
 - Makes displayed information more useful
- Presentation Decisions
 - Selection
 - Location
 - Organization

Key Outcomes at June 2013 Meeting

- Approval of first RPGs
 - Reporting on Long-Term Sustainability of a Public Sector Entity's Finances
 - Financial Statement Discussion and Analysis

- New/reactivated projects
 - Social Benefits (probably start late 2013)
 - Emissions Trading Schemes (collaborative project with IASB with probable start early 2014)

Key Issues at September 16th-19th Meeting: Update to be provided

- Conceptual Framework
 - Review of timetable
 - Further review of responses to EDs on Elements and Measurement
- Exposure Drafts for approval
 - Replacement of IPSASs 6-8 (5 EDs)
 - First Time Adoption

Questions and Discussion



- Visit the webpage <http://www.ipsasb.org>
- Or contact us by e-mail
Chair IPSASB andreasbergmann@ipsasb.org
Technical Director stepheniefox@ipsasb.org