



**Australian Government**

**Australian Accounting  
Standards Board**

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Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
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Ontario M5V 3H2  
CANADA

Dear Ms Fox

***IPSASB Consultation Paper Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports***

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Consultation Paper (CP).

**General Comments: Relationship between the IPSASB and IASB Conceptual Framework projects**

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports (GPFs) who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for helping to ensure information reported by any entity is relevant, representationally faithful and comparable.

In light of the above, the AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work. In this regard, the Memorandum of Understanding between the International Federation of Accountants and the IASB dated 22 November 2011 is a step in the right direction.

In jurisdictions, such as Australia, that have a single Conceptual Framework (based on the IASB Conceptual Framework) for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

The AASB observes that the IPSASB is ahead of the IASB in addressing the topic of ‘presentation’ in its Conceptual Framework project. The AASB sees no problem in that, but strongly encourages the IPSASB to work with in the IASB in seeking common ground on this topic before it finalises its Conceptual Framework.

### **Specific Comments**

The AASB applauds the IPSASB for addressing this difficult topic. The AASB notes the CP usefully articulates some of the issues to be addressed in what is generally described as the ‘display’ component of a Conceptual Framework.

However, overall, the AASB does not support the CP as an adequate basis for developing an Exposure Draft on this topic. In summary, this is because the AASB:

- (a) considers that the CP has some important omissions that need attention; and
- (b) is concerned about the clarity and usefulness of some distinctions made in the CP.

The AASB’s more significant specific concerns are summarised below and elaborated on in the Appendix to this letter. The Appendix also sets out the AASB’s responses to the specific matters for comment in the CP.

### ***Significant concerns***

The AASB:

- (a) does not support the CP’s proposal to use ‘presentation’ as the term that encompasses the selection, location and organisation of information in GPFRs (see comments on Specific Matter for Comment 1(a) in the Appendix);
- (b) does not support the CP’s proposed distinctions between ‘core’ and ‘supporting’ information and between ‘display’ and ‘disclosure’ of information in GPFRs (see comments on Specific Matter for Comment 1(a) in the Appendix);
- (c) considers that decisions about presentation and disclosure principles should be preceded by decisions about the economic phenomena to be presented and disclosed. As far as the AASB is aware, the IPSASB’s work to date on its draft Conceptual Framework has not attempted to identify those economic phenomena in a structured manner. The AASB recommends that, to facilitate developing a coherent and structured set of objective-driven (rather than topic-driven) disclosures, the IPSASB should identify the general characteristics of an entity (selected economic phenomena) that should be the subject of general purpose financial reporting (see comments on Specific Matter for Comment 2(b)(i) in the Appendix); and

- (d) considers that applying the qualitative characteristics of useful financial information would not, of itself, identify the information that should be presented and disclosed in GPFs. The qualitative characteristics should be applied to information about the general characteristics of an entity, and therefore are not a substitute for identifying those characteristics (see comments on Specific Matter for Comment 2(b)(ii) in the Appendix).

If you have any queries regarding matters in this submission, please contact me or Jim Paul (jpaul@asb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K. M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin Stevenson  
*Chairman and CEO*

## APPENDIX

### AASB's comments on the Specific Matters for Comment on the CP

#### Specific Matter for Comment 1

With respect to the descriptions of 'presentation', 'display', 'disclosure', 'core information', and 'supporting information', and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?
- (b) Do you agree that identification of core and supporting information for GPFs should be made at a standards level rather than as part of the Conceptual Framework?

#### Matters 1(a) and 1(b)

- 1 The AASB disagrees with the proposals in Matter 1(a), for the reasons set out in paragraphs 2 – 14 below. Because it disagrees with distinguishing 'core' information from 'supporting' information, the AASB has no comment on Matter 1(b).

#### 'Presentation', 'display' and 'disclosure'

- 2 The AASB does not support using 'presentation' as an all-encompassing term (which includes, among other things, display and disclosure: paragraph 2.2 of the CP refers). 'Presentation' is used with a variety of meanings in IFRSs and IPSASs. For example, consistently with IFRSs:
- (a) in IPSAS 1 *Presentation of Financial Statements*, 'presentation' means:
    - (i) disclosure of classes or line items (e.g., paragraphs 45, 88, 102, 104 and 109 of IPSAS 1); and
    - (ii) the classification or structure of financial statements, or components thereof (e.g., paragraphs 55, 70 and 128 of IPSAS 1); and
  - (b) in IPSAS 28 *Financial Instruments: Presentation*, 'presentation' refers to the classification of financial instruments as liabilities or net assets/equity (paragraphs 1 and 13).
- 3 Therefore, it is potentially confusing to use 'presentation' in the CP as an all-encompassing term, and there is no apparent conceptual reason to give it a particular meaning in the IPSASB Conceptual Framework.
- 4 The AASB does not support indicating that, in relation to financial statements:
- (a) 'display' applies to information shown on the face of a statement (see paragraph 2.7 of the CP); and

- (b) ‘disclosure’ generally refers to elaboration of items on the face of a financial statement (see paragraph 2.12 of the CP).

‘Display’ and ‘disclosure’ are conventionally used with a less restrictive meaning. It would be helpful if those terms were used consistently with conventional practice, particularly as there is no apparent conceptual reason to give those words a different meaning in the IPSASB Conceptual Framework.

- 5 Instead of giving ‘presentation’, ‘display’ and ‘disclosure’ the meanings in the CP, the AASB suggests using ‘display’ as the term encompassing the structure of financial reports, the nature and amount of information disclosed in financial reports and the manner in which those disclosures are presented. Consequently, it should be unnecessary to define ‘presentation’ and ‘disclosure’. The AASB considers that the plain English meaning of ‘display’ seems appropriate for this part of the Conceptual Framework, and that ‘display’ has the advantage of less connotations relating to particular aspects of practice.

#### ‘Core’ and ‘supporting’ information

- 6 The AASB sees no need for the CP’s proposed distinction between ‘core’ and ‘supporting’ information, and considers that the distinction is not clearly expressed in the CP. Its reasons are set out in paragraphs 7 – 14 below.

#### Necessity of the distinction

- 7 In relation to whether the distinction is necessary, the AASB considers that:
  - (a) the qualitative characteristics of relevance and materiality are sufficient in this context for identifying the information to include in a GPFR; and
  - (b) the location of information in a GPFR does not necessarily imply its relative importance.
- 8 In relation to paragraph 7(b), the location of an item in a GPFR will depend on a number of factors. For example, in relation to financial statements, whether information about an item is reported on the face of a financial statement (either separately or within a total) will depend on such matters as:
  - (a) whether the item itself meets the definition and recognition criteria for an element of financial statements; and
  - (b) the nature of the information about that item (for example, disclosures about measurement uncertainties and of a sensitivity analysis might need to be made in notes due to their volume and complexity), regardless of whether that item is recognised in the financial statements.
- 9 In addition, some relevant information about an entity might be about the entity’s legal or economic environment, such as a change in laws affecting the entity’s future operations. For reasons such as these, disclosure in notes rather than on the face of a financial statement does not necessarily signify an item of information being less important. For example, information about an event (e.g., the

commencement of legal proceedings against the entity) might be disclosed only in the notes because the event does not give rise to an element of financial statements (e.g., a liability) that qualifies for recognition, but might nonetheless be one of the most important items of information in the entity's GPFR.

- 10 When information about an economic phenomenon is reported in both the financial statements and notes, it should not be assumed that the information in the financial statements (for example, a carrying amount of an asset or a liability) is more important than complementary information, such as information about the basis of its measurement and uncertainties surrounding possible inflows and outflows of economic benefits. This position is consistent with the AASB's view that totals in financial statements, such as profit or loss/surplus or deficit, are not more important than the composition of those totals.

Clarity of the distinction

- 11 The AASB also considers that the distinction between 'core' and 'supporting' information is not clearly expressed in the CP, for the reasons noted in paragraphs 12 – 14 below.
- 12 Paragraph 2.6 of the CP says "Core information highlights key messages related to an information area and so is *central* to meeting the objectives of financial reporting and user needs" (emphasis added). Paragraph 2.13 of the CP says "Supporting information is as important as core information, but its role means that it should not be presented as prominently as core information." Taken together, these statements indicate core information and supporting information are equally important, but also seem to indicate that only core information is 'central'. This seems confusing. The role of supporting information, referred to in the quote above from paragraph 2.13, is not clear to the AASB.
- 13 These potential sources of confusion are exacerbated by the comment in Table 1 on page 21 of the CP that "Relevance is important when distinguishing between core information and supporting information." This implies core information is more relevant than supporting information, although, as mentioned above, the CP describes core information and supporting information as being equally important.
- 14 Paragraph 2.11 of the CP says "Supporting information makes core information more useful ... by providing detail that will help users to understand the core information." It is difficult to identify a clear distinction between core information and supporting information if supporting information sometimes is needed to enable an understanding of core information. In such circumstances, the supporting information would seem integral to the core information and therefore not clearly distinct from it.

**Specific Matter for Comment 2**

With respect to the IPSASB's approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFRs including, but not restricted to, financial statements?

- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives; (ii) application of the qualitative characteristics (QCs) to presentation decisions; and (iii) separate presentation concepts?

Matter 2(a)

- 15 The AASB agrees with developing ‘presentation’ concepts (while noting its preference for calling them ‘display’ concepts: see the AASB’s comments in paragraph 5 of this Appendix) that can be adopted for the more comprehensive scope of GPFs (than financial statements) decided upon in Phase 1 of the IPSASB’s Conceptual Framework project. The AASB considers that such concepts should be developed for any information within the scope of the Conceptual Framework. This would not preclude developing such concepts first for financial statements, and then for other information in GPFs, if that approach helps make the process manageable.

Matter 2(b)(i)

- 16 The AASB agrees with focusing on user needs to identify ‘presentation’ objectives. However, the AASB considers that decisions about the associated principles should be preceded by decisions about the economic phenomena to be presented and disclosed. This would flesh out the implications of focusing on user needs. As far as the AASB is aware, the IPSASB’s work to date on its draft Conceptual Framework has not attempted to identify those economic phenomena in a structured manner. The AASB recommends that, to facilitate developing a coherent and structured set of objective-driven (rather than topic-driven) disclosures, the IPSASB should identify the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting.
- 17 The AASB Chairman has been undertaking research into these general characteristics of an entity, as a basis for developing a coherent and structured set of disclosures. Examples of these characteristics, which were provided to IPSASB project staff in September 2011 (based on research work-in-progress), are:
- (a) the capacity of the entity to provide goods and/or services under its current business model, and whether that capacity is changing over time;
  - (b) the sustainability of the business model being employed, and whether that sustainability is changing over time;
  - (c) the ability of the entity to change to alternative business models (entity sustainability), and whether that ability is changing over time;
  - (d) the adequacy of the entity’s financial structure, including liquidity and solvency, and whether that adequacy is changing over time; and
  - (e) the capacity of the entity to change its financial structure, and whether that capacity is changing over time.

[These particular characteristics (economic phenomena) are provided to illustrate an apparent gap in the draft IPSASB Conceptual Framework, rather than to initiate

debate at this stage on what those particular characteristics should be (given that they are a work-in-progress).]

- 18 The AASB envisages the general characteristics of an entity identifying at a high level the information needs stemming from the objective of general purpose financial reporting, which it regards as providing information to users of GPFRs that is useful for making decisions about the allocation of scarce resources, including providing information to discharge the accountability of the entity's management. In the hierarchy of a Conceptual Framework, those general characteristics of an entity would precede (or sit above) the qualitative characteristics of useful financial information and would determine the subject matter of the financial reports (economic phenomena depicted).
- 19 The AASB considers it anomalous that the general characteristics of an entity of the kind described in paragraph 17 above seem not to be addressed in the IPSASB's draft Conceptual Framework, when some of them are addressed in IPSASB ED 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*. Specifically, IPSASB ED 46 proposes that the dimensions of fiscal sustainability are fiscal capacity, service capacity and vulnerability.

Matter 2(b)(ii)

- 20 The AASB agrees with application of the qualitative characteristics to 'presentation' decisions, noting that the qualitative characteristics pertain to all information in general purpose financial reports.
- 21 However, the AASB considers that applying the qualitative characteristics of useful financial information would not, of itself, identify the information that should be presented and disclosed. The qualitative characteristics should be applied to information about the general characteristics of an entity, and therefore are not a substitute for identifying those characteristics. (See the AASB's comments on Specific Matter for Comment 2(b)(i), regarding the importance of identifying information about the general characteristics of an entity as a basis for developing a coherent and structured set of objective-driven disclosures.)
- 22 As mentioned in paragraph 18 of this submission, the AASB envisages that the general characteristics of an entity would precede (or sit above) the qualitative characteristics of useful financial information.
- 23 The AASB considers that the comments in Table 1 on page 21 of the CP, illustrating application of the qualitative characteristics to presentation decisions, warrant elaboration. As worded, a number of those comments look like mere assertions. (This does not mean the AASB disagrees with them.) For example:
- (a) it is not readily apparent how information's location can facilitate timeliness;
  - (b) it is not readily apparent why the extent to which information can be verified and the ways in which different types of information are verified may impact on where information is shown; and



- (c) it would be useful to provide an example of locating information in a manner that aids understandability.

However, the AASB does not support the comment in Table 1 that “Relevance is important when distinguishing between core information and supporting information.” As discussed in the AASB’s comments on Specific Matter for Comment 1(a), the AASB disagrees with separately defining, or otherwise distinguishing between, core information and supporting information.

#### Matter 2(b)(iii)

- 24 The AASB agrees with the proposal to develop separate ‘presentation’ concepts. It also considers that such presentation concepts should complement identified general characteristics of an entity, developed as a basis for developing a coherent and structured set of objective-driven disclosures [see the AASB’s comments on Specific Matter for Comment 2(b)(i)]. The AASB’s comments on the specific presentation concepts proposed in the CP are set out under Specific Matter for Comment 4.

#### **Specific Matter for Comment 3**

The CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

#### Matter 3(a)

- 25 The AASB agrees that ‘presentation’ objectives should be developed. It also considers that such presentation objectives should complement identified general characteristics of an entity, developed as a basis for developing a coherent and structured set of objective-driven disclosures [see the AASB’s comments on Specific Matter for Comment 2(b)(i)].
- 26 The AASB observes that some examples of presentation objectives in paragraph 4.4 of the CP are similar to the general characteristics of an entity mentioned in the AASB’s comments on Specific Matter for Comment 2(b)(i) [see paragraph 17 above]. The AASB regards its proposals for identifying the general characteristics of an entity as compatible with, but more comprehensive than, the presentation objectives illustrated in the CP. Another difference between the general characteristics of an entity and the CP’s presentation objectives is that (as mentioned in paragraph 18 above) the general characteristics would, in the hierarchy of a Conceptual Framework, precede (or sit above) the qualitative characteristics of useful financial information and would determine the subject matter of the financial reports.
- 27 Each of the illustrative presentation objectives in paragraph 4.4 of the CP seems broader (or higher-level) than the user information needs identified in paragraph 4.3 of the CP. Therefore, it seems odd that only examples of presentation objectives are

provided, given the extensive list of user information needs set out in paragraph 4.3. Identifying the general characteristics of an entity that should be the subject of financial reporting would address that concern, and would overcome the ambiguous distinction made between user needs and presentation objectives in the CP.

#### Matter 3(b)

- 28 The AASB disagrees with the comment in paragraph 4.5 of the CP that “the development of presentation objectives is a task at the standard setting level, rather than at the Conceptual Framework level”. The AASB considers that any such objectives should be developed as part of the IPSASB Conceptual Framework, and extended in individual IPSASs to the extent they are specific to the scope of a particular IPSAS.
- 29 If presentation objectives were developed only at a Standards level, there is a risk that objectives common to topics covered by different IPSASs would be redeliberated in developing or revising each IPSAS. This would be inefficient and increase the risk of *ad hoc* decisions that could:
- (a) differ from IPSAS to IPSAS, and according to the changing composition of the IPSASB over time; and
  - (b) impede the rationalisation of presentation and disclosure requirements through the development of a coherent and structured set of objective-driven disclosures.

#### **Specific Matter for Comment 4**

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, how.

- 30 The three proposed concepts are largely acceptable to the AASB. However, proposed ‘presentation’ concepts 1 and 2 seem to identify principles that are already evident from Phase 1 of the draft IPSASB Conceptual Framework, and therefore do not appear to contribute significantly to the development of the IPSASB Conceptual Framework.
- 31 Proposed ‘presentation’ concept 1 refers to the selection of information that meets user needs. This seems to overlap the ‘presentation’ objectives discussed in Section 4 of the CP (which seem to be focused on the economic phenomena to be reported). The AASB suggests clarifying the relationship between ‘presentation objectives’ and ‘presentation concepts’.
- 32 In addition, regarding proposed presentation concept 1, it is not apparent why the qualitative characteristic of timeliness is specifically singled out for mention, but not others like relevance and faithful representation. Another concern is that, although timeliness is a characteristic of information that meets user needs, proposed presentation concept 1 mentions information that is ‘sufficiently timely’ *in addition* to mentioning information that meets user needs.

- 33 Regarding proposed presentation concept 2, the AASB recommends adding discussion that the location of an item in a set of financial statements will depend on such matters as:
- (a) whether the item itself meets the definition and recognition criteria for an element of financial statements. This is mentioned briefly in paragraph 1.7 of the CP, but warrants discussion in Section 6 (integrally with other discussion of where to locate information in a GPFR); and
  - (b) the nature of the information about that item (for example, disclosures about measurement uncertainties and of a sensitivity analysis might need to be made in notes, due to their volume and complexity).
- 34 The AASB supports proposed concept 3.

#### **Specific Matter for Comment 5**

Given the three concepts proposed, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

- 35 As mentioned in paragraph 16 above, the AASB recommends that, to facilitate developing a coherent and structured set of objective-driven (rather than topic-driven) disclosures, the IPSASB should identify the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting. This would help address the ‘selection of information’ issue addressed by proposed presentation concept 1.
- 36 The AASB has no additional presentation concepts to suggest.

#### **Specific Matter for Comment 6**

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and
- (b) Any suggestions you have for developing these techniques.

- 37 The AASB considers that it could be useful for the IPSASB to develop and apply presentation techniques (which are described in paragraph 6.2 of the CP as “ways to implement the concepts”). It also notes that the selection of some of the presentation techniques discussed in paragraphs 6.12, 6.17, 6.24 and 6.27 of the CP might appropriately be left to the discretion of preparers. This is because decisions about the most appropriate presentation techniques to meet the qualitative characteristics of useful financial information (such as when to use graphs or charts to display information, and the extent to which information is disaggregated—referred to in paragraph 6.24) may depend on the circumstances.

- 38 Because it considers that considerable further development of concepts impinging on ‘presentation’ is needed, at this stage the AASB generally does not have comments on the lower-order issue of presentation techniques, as discussed in paragraphs 6.12, 6.17, 6.24 and 6.27 of the CP. However, the AASB has the following comments on paragraph 6.17:
- (a) it does not supporting distinguishing between ‘core’ and ‘supporting’ information (mentioned in the first bullet point)—see the comments in paragraphs 6 – 14 above; and
  - (b) it considers it is possibly premature to mention developing criteria for selecting the location of different types of information in separate GPFRs (mentioned in the second bullet point), in the context of an entity issuing complementary GPFRs covering different types of information (possibly with different frequencies). Until further progress is made on delineating which information belongs in the scope of general purpose financial reporting, it seems difficult to consider how to determine which particular GPFRs certain information should be located in (see also paragraph 15 above).