



Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

15 May 2013

Dear Stephenie

Re: ED 2 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.*

1. The Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the above exposure draft. CAPE is an advisory committee to the FRC's Accounting Council, which advises the FRC Board as the UK standard-setter. It should be noted that as the IASB's Conceptual Framework develops so too may the Council and Board's thinking.
2. We reiterate our comments from previous responses to the conceptual framework that we believe that it is important that the differences between the IASB and IPSASB be minimized where possible.
3. We specifically do not agree with the creation of two new elements (deferred inflows and deferred outflows) particularly as these elements will most likely only capture very few items.
4. Our responses to the Specific Matters for Comment are set out in the attached Appendix.
5. If you require any further information please contact Joanna Spencer (j.spencer@frc.org.uk) or telephone +44 (0) 20 7492 2428.

Yours sincerely

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Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

Whilst we can live with the definition of an asset, as indicated in our response to the Consultation Paper on Elements and Recognition in June 2011, we would prefer that assets be defined in terms of the rights to a resource that will provide future economic benefits and not control of the actual resource.

Therefore, we would amend the definition to:

An asset is a right to a resource that has the ability to provide an inflow of service potential or economic benefits, and which arises from a past event.

Specific Matter for Comment 2

- (a) Do you agree with the definition of a liability? If not how would you modify it?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

(a) Yes - We agree with the definition of a liability.

(b) Although we do not like the term 'non-legal binding obligation' and would prefer the use of 'constructive obligation' we are prepared to tolerate it on the understanding that it would not change the actual application of a constructive obligation

Specific Matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

No - We reiterate our response from June 2011 whereby we believe that elements of financial performance should be defined in terms of changes in net assets (excluding transactions with equity interests) and not in terms of inflows and outflows.

We are also uncomfortable with the use of the term 'revenue' as the general term for all inflows. We believe that the term revenue is understood to be associated with operating activities (i.e. above the line) and therefore could be misunderstood and lead to confusion if it is used in the general way proposed by the IPSASB. Therefore, we would prefer to see the use of a broad term such as 'gains'.

Specific Matter for Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

No – similarly to our response to SMC 3 we also consider that the term ‘losses’ should be used as a general term for outflows in place of expenses.

Specific Matter for Comment 5

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
- (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

(a) We do not agree with the decision to define deferred inflows and deferred outflows as elements. We are of the opinion that if these items meet the definition of an asset or liability then they should be classified as such and if they do not then they should not be on the balance sheet. It would be better if the definitions of assets and liabilities could be enhanced so as to encompass the (few) items that would fall into the deferred inflow/outflow category.

(b) Not applicable.

Specific Matter for Comment 6

- (a) Do you agree with the term net assets and net financial position and the definitions? If not, how would you modify the terms and/or definition?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definition of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

(a) Given our response to SMC 5 (a) we do not agree with the terms '~~net assets~~' and 'net financial position' because ~~they~~it encompasses es the deferred inflow/outflow elements.

(b) Yes – we agree with the decision to define ownership contributions and ownership distributions.

(c) Yes – we agree with the definition of ownership contributions provided in practice it was regarded as an interest in the residual. We also agree with the definition of ownership distributions.

(d) Yes we agree with the decision not to define ownership interests.

Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

We have no comments to make on the discussion on recognition.