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

Re: Exposure Draft "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports"

We recognize the challenges of developing a Presentation framework for general purpose financial reports (GPFRs) and appreciate the opportunity to participate in the discussion of this important topic. Please note that these are views of staff and do not represent the views of the Public Sector Accounting Board.

Overall, we welcome some of the changes made in the Exposure Draft (ED) from the Consultation Paper, including removal of repetitive descriptions of Phase 1 concepts and a cleaner structure based on the three presentation decisions. However, guidance for GPFRs that are not general purpose financial statements (GPFSs) remain insufficient.

While we agree with many of the conclusions in the Basis for Conclusions, they are not obvious from the reading of the ED. We would ask you to consider:

- the logical flow of the material;

- the linkages among the concepts and ideas; and

- the placement of guidance, for example, display and disclosure information are described under Section 4: Information Organization but not under Section 2: Information Selection.

Our suggestions for modification to the Presentation framework are described in the attached responses to the Specific Matters for Comment (SMC) in the Appendix of this letter. They include:

- **A simplified and self-contained description of presentation**. Suggested description is included in our response to SMC1.

- **A structure for the Presentation framework with separate sections to address agenda setting decisions, standard setting decisions and GPFR preparation decisions.** The agenda setting decisions would include the high level decisions described in the ED as well as selecting

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specific objective of financial reporting and user information needs to be addressed in a GPFR project. As the role of the Conceptual Framework includes providing guidance for development of IPSASB pronouncements and for preparation of GPFRs by public sector entities in areas not addressed by IPSASB, we suggest breaking down the lower level decisions described in the ED into standard setting and GPFR preparation decisions. Suggested descriptions of the decisions and related guidance are included in our responses to SMC3 and SMC4.

- **Applying the concept of core and supporting information to information selection decisions in standard setting.** We support IPSASB's decision to focus the display and disclosure distinction on the types of information (as described in the Basis for Conclusions) that would be presented at a summarized level and at a more detailed level respectively, and not mixing it with the location and organization of information. In our view, underlying the display and disclosure distinction is the concept of core and supporting information. This is a key concept for information selection decisions in standard setting. We believe that this concept can be better explained without the terms "display" and "disclosure" as their descriptions has caused unnecessary complication and confusion in the ED. Suggested descriptions of core and supporting information and related guidance are included in our response to SMC4.

- **Removing information location as a separate category of presentation decisions.** A closer look at the guidance in Section 3: Information Location indicated that there is very limited guidance that is relevant to information location decisions in GPFRs. Such guidance can be easily and logically incorporated into the discussion of core and supporting information. See more discussion and rationale in our responses to SMC2 and SMC5.

- **Expanding guidance for information organization decisions to include guidance for effective communication of information for maximum understandability, and identification of trade-offs between certain communication principles and qualitative characteristics in information organization decisions.** The most relevant Phase 1 concepts for information organization decisions are relevance and understandability. The purpose of information organization is effective communication to users. Information organization decisions often involve balancing well-intention and sometimes conflicting communication principles and/or qualitative characteristics. Preparers of GPFRs should be aware of these trade-offs

in their information organization decisions. Examples of relevant communication principles and trade-offs in information organization decisions are identified in our response to SMC6.

- **Clarifying what a GPFR report may mean with consideration of the integrated reporting concept.** The Presentation framework should note that each GPFR pronouncement does not necessary require preparation of a separate GPFR report. It is because under the concept of integrated reporting, a single report can contain multiple components with each covers a specific GPFR information area. Whether different GPFRs should be issued for different subject matters or a single report that covers multiple topics be issued should be a decision of the preparers. The importance is that each component addresses a particular objective of financial reporting in a specific information area that meets certain information needs of users. See more discussions in our response to SMC3.

- **Requiring preamble information to be included in each GPFR.** As a GPFR can contain multiple GPFR subject matters, there is a need for the Presentation framework to specify some basic information that should be included as preamble in each GPFR or each GPFR component. Examples include the purpose, scope, limitation and the reporting entity covered. See descriptions of the examples in our response to SMC3.

We thank you for the opportunity to comment and wish IPSASB success in this and other components of the Conceptual Framework project.

Sincerely,

Lydia P. So

APPENDIX RESPONSES TO SPECIFIC MATTERS FOR COMMENT EXPOSURE DRAFT PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS

Specific Matter for Comment 1

Do you agree with the proposed descriptions of "presentation", "display", and "disclosure" and the relationships between them in Section 1? If not, how would you modify them?

Presentation

We suggest that the description of presentation be modified by:

- Combining the two sentences in paragraph 1.2 that contain the ideas of what presentation is and what presentation should do into a single sentence to give the description a more complete meaning.

- Eliminating the reference to a footnote to make the description more understandable and sufficient on its own. This can be achieved by dropping the term "constraints" and stating the two specific constraints as "constraints" can be interpreted generally by others if there is no specific reference. Listing the "qualitative characteristics" is not needed as this term can be easily related to the title of Chapter 3 of the Conceptual Framework.

- Simplifying the description to make it more concise by removing the phrase "displayed and disclosed" as it is unnecessary for a complete meaning of presentation.

Our suggested description is:

> "Presentation is the selection, placement and organization of information in GPFRs in a way that achieves the objectives of financial reporting and the qualitative characteristics of financial information while taking into account materiality and cost benefit considerations."

Display and disclosure

Paragraph BC9 states that "the descriptions of display and disclosure have been revised to explain what types of information would be displayed and what disclosed." We support IPSASB's decision to focus the display and disclosure distinction on the types of information that would be presented at a summarized level and at a more detailed level respectively, and not mixing it with the location and organization of information.

In our view, underlying the display and disclosure distinction is the concept of core and supporting information. This is a key concept for information selection decisions and should be discussed under Section 2: Information Selection. We believe that this concept can be better explained without the terms "display" and "disclosure" as their descriptions has caused unnecessary complication and confusion in the ED. For example, the descriptions of display and disclosure in Section 1 do not focus on the "what types of information" as stated in paragraph BC9. While the description of disclosure in paragraph 1.4 only addresses the types of information, the description of display in paragraph 1.3 also includes how and where information should be presented.

Some descriptions of display and disclosure in Section 1 are based on the statements and notes distinction in GPFSs. They do not fit other GPFRs. For example, the references to "an element definition" and "the basis for displayed information such as applicable policies" in paragraph 1.4, and the idea of "disclosure is not a substitute for display" in paragraph 1.5 are GPFSs oriented.

Also, the discussion under "Criteria for Display and Disclosure" in paragraphs 1.5 to 1.7 does not provide any criteria or guidance to distinguish display and disclosure. For example, the "classification principles" in paragraph 1.6(a) are not identified or further explained how they would help identify information for display and disclosure. Paragraph 1.6(b) and (c) simply state that lists of what should be displayed and what should be disclosed should be developed without indicating what considerations should be taken into account in developing the lists.

Paragraph BC9 states that "Coverage in subsequent sections provides additional guidance on the distinction between display and disclosure as it applies to the three decisions." However, neither the concept of display and disclosure nor their distinction is addressed in Section 2: Information Selection though the two terms are supposed to explain what types of information should be presented in GPFRs, that is, to deal with information selection decisions.

Specific Matter for Comment 2

Do you agree with the identification of three presentation decisions (selection, location and organization) in section 1? If not, how would you modify the identification of presentation decisions?

The three presentation decisions identified in the ED seem logical as they address what, where and how information should be presented in GPFRs. However, a closer look at the guidance in "Section 3: Information Location" indicates that a separate category of information location decision in the Presentation framework is unnecessary. It is because Section 3 essentially contains just one piece of guidance on information location, that is, summarized information or information displayed should be presented prominently and separately from disclosed information. Other guidance in Section 3 either relates to information organization decisions or other presentation considerations. This information location guidance can be easily and logically incorporated into the discussion of information selection or information organization decisions.

Information location may be more relevant for GPFSs than for other GPFRs as their structure (i.e., statements and notes) is well defined. However, as there are specific criteria to determine what should be recognized in the statements, there is little room for information location decisions in GPFSs. Any specific guidance on whether information should be presented in statements or notes would be more appropriate to be included in a GPFSs standard (one that would also specify the specific statements to be included in GPFSs as discussed in paragraph BC 22). This approach would make the Presentation framework more understandable as it would apply to all GPFRs. It will also avoid duplication of GPFSs materials in the Conceptual Framework and a GPFSs standard.

Specific Matter for Comment 3

Do you agree with the proposed approach to making presentation decisions in Section 1? If not, how would you modify it?

While we support the general approach of applying Phase 1 concepts to a presentation framework, we suggest modifying the approach described in paragraphs 1.9 and 1.10 by:

- Combining the ideas in paragraph 1.9 and the high level decisions in paragraph 1.10 and labelling them as **agenda setting decisions** as these are decisions which IPSASB would make in setting its technical agenda. Agenda setting involves determining which specific objective of financial reporting and particular unmet information need of users to develop guidance on, as well as whether the guidance should be provided in a new pronouncement or an expanded existing pronouncement.

- Breaking down the lower level decisions in paragraph 1.10 into **standard development decisions** and **GPFR preparation decisions**. As stated in Chapter 1 of the Conceptual Framework, its role includes providing guidance for development of IPSASB pronouncements and for preparation of GPFRs by public sector entities in areas not addressed by IPSASB. The Presentation framework should therefore provide guidance for standard development and GPFR preparation decisions.

A Presentation framework that better reflects this approach would have separate sections for "Agenda Setting Decisions", "Standard Development Decisions" and "GPFR Preparation Decisions". This is a preferred structure for this approach compared to the current one with separate sections for the three presentation decisions of information selection, information location and information organization. It is because agenda setting usually does not involve information selection, location and organization decisions. Guidance on agenda setting decisions would not fit under the current presentation decisions structure.

Suggested materials to cover under "Agenda Setting Decisions"

Decisions at agenda setting involve:

- Reviewing the **objectives of financial reporting** and the **information needs of users** in Chapter 2 of the Conceptual Framework to identify any unmet information needs of users of GPFRs for accountability and decision-making purposes.

- Evaluating each unmet information needs to select a particular information area to develop guidance based on IPSASB's agenda setting criteria, together with consideration of **importance, relevancy and materiality** of each information area to the assessment of accountability and decision-making by users.

- Developing a project brief that describes the selected information area, the particular objective of financial reporting and the specific information needs to be addressed by the project. These will be the key criteria, among others, for information selection decisions in standard development and GPFR preparation.

- Determining whether the guidance should be provided in a new pronouncement or in an expanded existing pronouncement. This decision is required only if the specific information area addressed in the project is related to a subject matter already addressed in existing GPFR pronouncements. Factors to consider in this decision include the **benefits** of addressing a broader user need in a GPFR, the **understandability** of an expanded GPFR, the **completeness** of information currently available to meet **users' need** for the particular **objective of accountability and decision-making** in that subject matter.

The Presentation framework should note that each GPFR pronouncement issued by IPSASB does not necessarily require preparation of a separate report. It is because under the concept of integrated reporting, a single report can contain multiple components with each covers a specific GPFR information area. For example, a report can have a component of GPFSs, a component of Financial Statement Discussion and Analysis and a component of Long-term Fiscal Sustainability. Whether different GPFRs should be issued for different subject matters or a single report that covers multiple topics be issued should be a decision of the preparers. The importance is that each component addresses a particular objective of financial reporting in a specific information area that meets certain information needs of users. It is therefore important that each component or GPFR includes:

- A description of its specific purpose (the particular objective of financial reporting) and the specific information needs of users that it aims to satisfy as well as its limitations for other related purposes (where applicable).

- A description of the boundary of the reporting entity covered in the GPFR/component, compared with the boundary of reporting entity covered in other components of the same report or other GPFRs issued by the same public sector entity (whichever applicable). An explanation of why the boundary in that component/GPFR is different, if any, from other components/GPFRs should be provided.

Specific Matter for Comment 4

Do you agree with the description of information selection in Section 2:

(a) In the financial statements; and

(b) Within other GPFRs?

If not, how would you modify the description(s)?

Note that we suggest a structure of the Presentation framework with separate sections for agenda setting decisions, standard development decisions and GPFR preparation decisions in the above response to SMC3. However, if the current presentation decisions structure is to be maintained, we suggest modifying the approach of Section 2 to address information selection decisions in standard development and GPFR preparation with the core and supporting information concept (underlying the display and disclosure description in Section 1).

Sub-section "Information in Financial Statements and Other GPFRs" in the ED can be removed as it does not provide specific guidance for information selection decisions. Since what information should be presented in the financial statements is determined by the definitions of elements of financial statements and their recognition criteria, there is little need for information selection decisions for the statements. The descriptions under sub-section "financial statements" which primarily identify specific user needs that can be met in financial statements (not address information selection decisions) would fit better in a GPFSs standard than a Presentation framework that applies to all GPFRs.

As the role of the Conceptual Framework includes providing guidance for development of IPSASB pronouncements and for preparation of GPFRs by public sector entities in areas not addressed by IPSASB, the Presentation framework should provide guidance for standard development and GPFR preparation decisions. These two levels of decisions, together with the agenda setting decisions suggested in the above response to SMC3, should replace the high level and lower level decisions described in paragraph 2.2. Relevant concepts under sub-section "Selection Decisions for Detailed Information within a GPFR" and other applicable Phase 1 concepts should be included in the discussion of specific information selection decisions in standard development and GPFR preparation.

Suggested materials to cover under "Core and Supporting Information"

A GPFR should contain core information that is essential to meeting user needs for the particular accountability assessment and decision-making objective in the specific information area identified in the project brief.

Core information includes key information and/or indicators that are relevant to the subject matter and would make a difference in users' assessment and decision. It also includes key measures that faithfully represent the key indicators. Each piece of key information or indicator may not be sufficient of itself for the purpose of the particular assessment or decision. All key information and/or indicators that together provides a complete and balance set of information for the purpose of the particular GPFR form the core information.

A GPFR should also provide supporting information that explains, describes and elaborates the core information to make them more understandable and useful, and information that puts the core information in perspectives.

Depending on the nature of and the subject matter covered in a GPFR, and the specific key information, indicators and measures selected, supporting information may include definitions, accounting and operating policies, methodologies, major assumptions, risks and uncertainties, recognition criteria, historical trend, other relevant known facts, economic environment, contractual obligations, contingencies, sensitivity analysis, etc..

Suggested materials to cover under "Information Selection Decisions in Standard Development"

Most information selection decisions in standard development relate to identification of specific core information that should be prescribed, suggested or permitted in a particular GPFR. The types or nature of supporting information required to be provided in a GPFR should follow logically from the

key information, indicators and measures chosen. There is not much room for decision or need for judgment.

Identification of core information involves:

- Identifying the different aspects of a complete and balance assessment of accountability on the subject matter or the different factors a user needs to consider in making a particular decision in the subject matter addressed in a GPFR pronouncement.

- Evaluating the importance of each identified aspect or factor to the users' assessment and decision to select a complete and balance set of core information that is essential for users' assessment and decision in that particular subject matter to be the prescribed key information or indicators.

- Reviewing the remaining list to identify any information about the subject matter that may be suggested (but not required) in the standard considering the incremental benefits to users and additional costs to preparers.

- Determining if any substitute of the key information/indicators should be allowed considering the need for comparability and the benefit of permitting flexibility to reflect the entity/jurisdiction specific circumstances in that subject matter. Identifying possible substitutes and developing guidance on when a substitute is allowed.

- Identifying possible measures of each key indicator that faithfully represent them.

- Evaluating and selecting a key measure for each key indicator based on their supportability, comparability, costs, availability and timeliness of the required input/data.

- Determining if any substitute measure should be allowed based on the suitability of other measures and the need for comparability. Identifying the acceptable measure(s) and developing guidance on when an alternative measure is allowed.

Suggested materials to cover under "Information Selection Decisions in GPFR Preparation"

Most information selection decisions in GPFR preparation relate to identification of relevant and sufficient supporting information about the key information, indicators and measures to enable effective accountability assessment and decision-making by users.

There is relatively little need for selecting core information for GPFRs by public sector entities as they should be prescribed in the GPFR pronouncement. In areas where substitute key information/ indicator and alternative key measure are permitted, a public sector entity would follow the guidance provided in the pronouncement.

If a public sector entity chooses to prepare a GPFR in an information area not addressed in IPSASB pronouncements, it should follow the guidance for identification of core information in standard development in preparation of that GPFR.

In selecting supporting information, a public sector entity would:

- Identify all relevant information that explains, describes and provides the context for each key information, indicators and measures.

- Evaluate and select supporting information from the identified list based on their **necessity and significance** for users to understand and properly interpret the core information, and to use the core information to make effective assessment and decision.

A public sector entity that prepares a GPFR has the ultimate responsibility for ensuring information provided in the GPFR fairly reflects its own circumstances and operating environment. It should ensure that the core and supporting information together provide adequate relevant and useful information to users for the intended purpose of the GPFR.

Specific Matter for Comment 5

Do you agree with the description of information location in Section 3:

(a) In the financial statements;

(b) In other GPFRs; and,

(c) Between different reports within GPFRs?

If not, how would you modify the description(s)?

Note that we suggest a structure of the Presentation framework with separate sections for agenda setting decisions, standard development decisions and GPFR preparation decisions in the above response to SMC3. Even if the current presentation decisions structure is to be maintained, it is our view that the Presentation framework does not need a separate category of presentation decision to address information location decisions (as discussed in the above response to SMC2). It is because a closer look at the guidance in Section 3 indicates that there is very limited guidance that is relevant to information location decisions in GPFRs. The only information location guidance provided in Section 3 under sub-section "Location of Information within a Report" is that information displayed should be presented prominently and separately from disclosed information. This guidance can be easily and logically incorporated into the discussion of information selection of information organization decisions.

Sub-section "Allocation of Information between Different Reports" in Section 3 can be removed because it does not address information location decisions but information organization decisions and agenda setting decisions. There are also problematic descriptions about information location in the introductory paragraphs 3.1 and 3.2, for example, we do not agree that "location has an impact on information's relevance, verifiability, … faithful representation …" or that "location may be used to … (b) convey the nature of information …".

Information location may be more relevant for GPFSs as their structure (i.e., statements and notes) is well defined. However, as there are specific criteria to determine what should be recognized in the statements, there is little room for information location decisions in GPFSs. Any specific guidance on

whether information should be presented in statements or notes would be more appropriate to be included in a GPFSs standard.

Specific Matter for Comment 6

Do you agree with the description of information organization in Section 4:

(a) In the financial statements; and

(b) In other GPFRs?

If not, how would you modify the description(s)?

The discussion and structure in Section 4 focuses on the objective of making "clear important relationships between items" (as identified in paragraph 4.2). We believe that information organizations involve more important considerations than just addressing relationships among information and reports. Some discussions under sub-section "Organization of Information within the Financial Statements" do not address information organization decisions but information selection decisions, for example, paragraphs 4.12 and 4.13.

We suggest a structure of the Presentation framework with separate sections for agenda setting decisions, standard development decisions and GPFR preparation decisions in the above response to SMC3. Most information organization decisions are made in the preparation of GPFR by public sector entities. If the current three presentation decisions structure is to be maintained, we suggest modifying the relationship oriented approach of Section 4 to one that provides guidance for effective communication of information for maximum understandability and identifies and discusses the trade-offs between certain communication principles and/or qualitative characteristics in information organization decisions.

The most relevant Phase 1 concepts for information organization decisions are relevance and understandability. The purpose of information organization is effective communication to users. The presentation framework should provide guidance for effective communication of information for maximum understandability. Information organization decisions often involve balancing well-intention and sometimes conflicting communication principles and/or qualitative characteristics. The presentation framework should identify these possible trade-offs for preparers to consider in their information organization decisions.

Examples of relevant communication principles or presentation techniques that enhance understanding of relevant information to be further elaborated and explained in the Presentation framework include:

- use of plain language, concise description in narratives;

- appropriate aggregation and disaggregation of quantitative information;

- cross referencing to link related information;

- organize information together to provide proper context;

- use of graphs and charts with narratives, to present historical trend and comparatives;

- organize information in the order of their importance and significance;

- ensure the volume of materials covered is in proportion to their relative significance; and

- avoid duplication.

Examples of trade-off in information organization decisions to be further elaborated and explained in the Presentation framework include:

- balance between conciseness and over simplification;

- balance between providing complete information and information overload;

- balance between aggregation and disaggregation;

- balance between providing proper context and duplication of information;

- balance between cross-referencing and understandability/readability; and

- balance between comparability and understandability/relevance.

Specific Matter for Comment 7

Do you consider that CF–ED4 contains sufficient detail on concepts applicable to presentation in GPFRs, including the financial statements, of governments and other public sector entities? If not, how would you extend the proposals?

For materials that are addressed in the ED, there is insufficient detail guidance for:

- presentation decisions for non-GPFS GPFRs (other GPFRs);

- high level decisions;

- identification of display and disclosure information; and

- information organization decisions.

In addition, a Presentation framework should also address the following:

- guidance for development of IPSASB pronouncements; and

- preamble information that should be presented in each GPFR.

Our suggestions in these areas are described in the above responses to the SMCs. Most suggestions would result in expanding the guidance for presentation decisions applicable to other GPFRs.

High-level decisions

As suggested in response to SMC3, high level decisions are part of the decisions involved in agenda setting. Determining whether the guidance should be provided in a new pronouncement or in an expanded existing pronouncement is required only if the specific information area addressed in a

GPFR project is related to a subject matter already addressed in existing GPFR pronouncements. Factors to consider in these decisions include the benefits of addressing a broader user need in a GPFR, the understandability of an expanded GPFR, the completeness of information currently available to meet users' need for the particular objective of accountability and decision-making in that subject matter.

Identification of display and disclosure information

As suggested in the above response to SMC1, underlying display and disclosure information is the concept of core and supporting information. We believe that this concept can be better explained without the terms "display" and "disclosure" as their descriptions has caused unnecessary complication and confusion in the ED. Suggested materials to describe and expand on the identification of core and supporting information are provided in the above response to SMC4.

Information organization decisions

As indicated in the above response to SMC6, the information organization decisions guidance in the ED only addresses linking important relationships among information. Suggested materials to expand the guidance are provide in the response to SMC6 which include communication principles for maximum understandability of relevant information and identification of trade-offs between certain communication principles and/or qualitative characteristics in information organization decisions.

Guidance for development of GPFR pronouncements

The above response to SMC3 suggested breaking the lower level decisions in the ED into standard development decisions and GPFR preparation decisions as these are roles of the Conceptual Framework. Suggested materials for information selection decisions in standard development are provided in the above response to SMC4.

Preamble information in each GPFR

As suggested in the above response to SMC3 that a GPFR can contain multiple GPFR subject matters, there is a need for the Presentation framework to specify some basic information that should be included as preamble in each GPFR or each GPFR component. Examples include the purpose, scope, limitation and the reporting entity covered. Suggested information to be included in the preamble of each GPFR is provided in the response to SMC3.