



Exposure Draft (ED) 81, Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

This summary provides an overview of ED 81

Project objective:

The objective of the Limited Scope Update is to revise the Conceptual Framework in specified areas.

The proposals will reinforce the role of the Conceptual Framework as the cornerstone of IPSASB's core activity—the development of high-quality financial reporting standards.

Project Stage:

ED 81 was issued in January 2022 and is the second of two EDs. ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*, was issued in April 2021. The IPSASB will review responses to ED 76 in the first half of 2022.

Comment Deadline:

ED 81 is open for public comment through May 31, 2022.

How To Respond:

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment” link on the Consultations page](#). Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

Why did the IPSASB undertake the project?

The purpose of the project is to update the Conceptual Framework so that it remains the cornerstone of IPSASB's standard-setting activities.

Objective

The objective of ED 81 is to update Chapter 3, *Qualitative Characteristics*, and Chapter 5, *Elements of Financial Statements*, of the Conceptual Framework, in specified areas so that the Conceptual Framework continues to be central to IPSASB's core standard-setting activity.

Rationale for the Project

The IPSASB approved and published the first global Conceptual Framework designed for the public sector in 2014. Since 2014 the Conceptual Framework has guided the development and maintenance of International Public Sector Accounting Standards (IPSAS).

In 2020 the IPSASB launched a limited scope project to consider certain areas of the Conceptual Framework in light of:

- The IPSASB's experience in applying the Conceptual Framework to the development and maintenance of IPSAS; and
- Developments in international thinking about conceptual issues since the Framework was approved in 2014.

The outcomes of the project will reinforce the role of the Conceptual Framework as the cornerstone of IPSASB's core standard-setting activity to develop high-quality financial reporting standards.

Chapter 3: Clarifying the role of prudence and updating guidance on materiality

The inclusion of new guidance explains the role of prudence. An update to the guidance on materiality better serves the users of financial information.

Role of Prudence

The Conceptual Framework currently identifies six QCs—relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

No additions or deletions are proposed to these six QCs.

ED 81 proposes enhanced guidance on the role of prudence indicating that:

- Neutrality is supported by the exercise of prudence.
- Prudence is the exercise of caution when making judgments under conditions of uncertainty.
- The exercise of prudence means that assets, liabilities, revenue, and expense are neither overstated nor understated.
- The exercise of prudence does not imply a need for asymmetry.
- Individual standards may include asymmetric requirements on a case-by-case basis.

Obscuring Information in Materiality

Currently the Conceptual Framework states that Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make based on the entity's GPFRs.

In the view of the IPSASB there is a further risk that material information can be obscured.

This can happen if an entity includes information about transactions or events that are not material. The more voluminous such disclosures the greater this risk.

The IPSASB is therefore proposing that obscuring material information is acknowledged as a factor that can have a negative impact on users.

Chapter 5: Elements in Financial Statements

The IPSASB is proposing minor changes to the definitions of an asset and a liability, and the addition of new guidance on a transfer of resources, unit of account and binding arrangements that are equally unperformed.

Areas where IPSASB is proposing modifications to existing guidance or new guidance

- A revised definition of a liability, which adopts the phrase ‘a transfer of resources’, rather than ‘an outflow of resources’, but retains the current components of the definition.
- A minor change to the wording of the definition of an asset.
- Adopting a more overtly rights-based approach to the description of a resource in the context of an asset.
- More extensive guidance on ‘a transfer of resources’ than currently provided on ‘an outflow of resources.’
- A reconfiguration of the guidance on a liability that aligns better with the definition of a liability and clarifies the relationship between an obligation and a present obligation.
- A new section on ‘unit of account’—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.
- Guidance on the accounting treatment of binding arrangements that are equally unperformed by both parties—guidance applies when neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent.

Next Steps

The deadline for comments is **May 31, 2022**.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.



How Can I Comment on the Proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters within the scope of the project that respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and a Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay Informed

The IPSASB’s website will indicate the meetings at which feedback on the ED will be discussed. The dates and the locations of 2022 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/limited-scope-update-conceptual-framework>