

Conceptual Framework Exposure Draft Summary Phase 4 of 4—Presentation in General Purpose Financial Reports

This summary provides an overview of the Phase 4 Exposure Draft (ED), *Presentation in General Purpose Financial Reports*.

Project objectives:

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is establishing and defining the concepts to be applied in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs). This ED on Phase 4 proposes concepts for presentation in General Purpose Financial Reports (GPIFRs).

The project and stage:

Following the publication of a Consultation Paper (CP) in 2008 and an ED in 2010 Phase 1 was completed in January 2013 with issuance of the first four chapters of the Framework, Chapter 1: *Role and Authority of the Conceptual Framework*; Chapter 2: *Objectives and Users of General Purpose Financial Reporting*; Chapter 3: *Qualitative Characteristics*; and Chapter 4: *Reporting Entity*.

The IPSASB issued EDs on Phase 2, *Elements and Recognition in Financial Statements* and Phase 3, *Measurement of Assets and Liabilities in Financial Statements*, in November 2012, after considering responses to earlier CPs. A CP on Phase 4: *Presentation in General Purpose Financial Reports* was issued in January 2012. The Phase 4 ED has been developed following analysis of responses to that CP.

Next steps:

The IPSASB seeks feedback to guide it in further developing the concepts proposed for presentation in GPIFRs.

Comment deadline:

The ED is open for public comment until August 15, 2013.

Why is the IPSASB Undertaking this Project?

The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions, and principles that respond to the objectives, environment and circumstances of governments and other public sector entities, and therefore, are appropriate to guide the development of IPSASs and RPGs.

Many current IPSASs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector.

The IASB has a project to develop an improved Conceptual Framework for profit-oriented entities. The IPSASB is closely monitoring the project. The IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not to interpret the IASB Framework for the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting guidelines where appropriate.

Although all the components of the Conceptual Framework are interconnected, the project is being developed in phases.

To meet the objectives of financial reporting, information is needed that encompasses financial and non-financial information, past and prospective information and reporting on compliance. GPFRs are more comprehensive than public sector general purpose financial statements (financial statements). Financial statements are focused on the financial portrayal of past transactions and events, which affect financial position at a point in time and financial performance for a specified period.

This ED sets out concepts applicable to the presentation of information in GPFRs, including financial statements. Presentation is the selection, location and organization of information that is displayed and disclosed in the GPFRs.

What do “presentation”, “display” and “disclosure” mean for GPFRs?

Presentation

- *Presentation* is the selection, location and organization of information that is displayed and disclosed in GPFRs.
- *Presentation* covers both *display* of information and *disclosure* of information.

Display or Disclosure?

Displayed information communicates the key messages in a GPFR. Displayed information is kept to a concise, understandable level, so that users can focus on the key messages presented and not be distracted by an excess of detail that could otherwise obscure those messages. Displayed information is presented prominently, using appropriate presentation techniques such as clear labelling, borders, tables or graphs.

Disclosed information makes displayed information more useful by providing detail that will help users to understand the displayed information, including (a) the basis for the displayed information, such as applicable policies or methodology, (b) disaggregations of displayed information, and (c) items that share many but not all of the aspects of displayed information (for example disclosures on items that meet some, but not all, of the characteristics of an element definition).

Criteria for Display and Disclosure

Decisions about display and disclosure apply to both the financial statements and other GPFRs.

The objectives of financial reporting are applied to the area covered by a particular report to guide identification of information for display or disclosure.

Identification of information for display or disclosure may involve:

- (a) Classification principles,
- (b) A list of broad types of information that should be displayed and a similar list of broad types that should be disclosed, and/or
- (c) Lists of specific information that preparers must display or disclose.

Presentation Decisions

Three Presentation Decisions

Decisions on the selection, location and organization of information

High level decisions that could result in a new report, movement of information between reports, or the amalgamation of reports. *Lower level* decisions on information selection, location and organization within a report.

Needs of Users and Objectives of Financial Reporting

Presentation decisions respond to the *needs of users* for information about economic or other phenomena.

Presentation decisions seek to achieve the *objectives of financial reporting*, which are to provide information useful for *accountability and decision-making* purposes.

For a particular report, the objectives of financial reporting applied to the area covered by the report, will guide presentation decisions for that report.

Qualitative Characteristics and Constraints

Presentation decisions also *apply the QCs and constraints*. The QCs are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. *Materiality, cost-benefit, and achieving an appropriate balance between the QCs* are pervasive constraints on information included in GPFs.

Financial and non-financial information is *relevant* if it is capable of making a difference in achieving the objectives of financial reporting.

To be useful in financial reporting, information must be a *faithful representation* of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error.

Understandability is the quality of information that enables users to comprehend its meaning. GPFs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented.

Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.

Verifiability is the quality of information that helps assure users that information in GPFs faithfully represents the phenomena that it purports to represent.

Information Selection

Information selection decisions involve consideration of:

(a) Relevant economic or other phenomena about which information may be necessary;

(b) The objectives of financial reporting, the QCs and constraints of GPFRs; and

(c) Information already reported in GPFRs.

High Level Decisions

Financial Statements

The financial statements provide information selected to meet user needs, which include the need to provide information about the financial position, financial performance and cash flows of an entity. Financial statements may also provide information on the extent to which an entity has (a) complied with its approved budget, (b) adhered to legislation or other authority, and (c) met its financial objectives.

Other GPFRs

Information is selected to meet the objectives of financial reporting, as applied to the area covered by a particular report, to satisfy the user needs for that report.

Lower Level Decisions

Within a report information selection:

- Results in sufficient information;
- Avoids information overload; and
- Involves prioritization and summarization to give an appropriate level of detail.

Information identified for possible selection is reviewed as it is developed, with reference to its *relevance, materiality* and *cost-benefit*.

All *material* transactions, events, and other items are presented to convey their *substance* rather than their legal or other form.

Information is presented on a *sufficiently timely basis* to help users to hold management accountable, and inform decisions.

Information Location

Location can

- (a) Convey information's importance and its connections with other information;
- (b) Convey the nature of information;
- (c) Link different items of information that combine to meet a particular user need; and,
- (d) Support users' ability to compare information.

High Level Decisions

Financial Statements

Location contributes to communicating a complete financial picture of an entity. Recognition of elements and other factors are important for decisions on whether information is displayed on the face of the financial statements. The notes disclose information that supports the information displayed on the face of the statements.

Other GPFRs A separate report may be necessary when (a) additional user needs, not satisfied by an existing report, are identified, and a separate report is more likely to achieve the objectives of financial reporting and QCs. Within a report displayed information may either be located separately from disclosed information or given prominence through another presentation technique.

Lower Level Decisions

Location is one way to present displayed information prominently.

For the financial statements, displayed information is shown on the face of the appropriate statement, while disclosures are in the notes.

For other GPFRs, displayed information may either be located separately from disclosed information or located in the same area, but distinguished from disclosed information and given prominence through the use of some other presentation technique.

Information Organization

Information organization in GPFRs aims to make clear *important relationships* between items.

Important relationships include, but are not restricted to:

- Enhancement
- Similarity
- Shared purpose

Related information is linked through use of consistent headings, ordering, and/or other methods appropriate to the relationship and type(s) of information.

Types of Relationships

Enhancement: Information in one place in a GPFR may be enhanced through information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements.

Similarity: A relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and either has not been adjusted or has had relatively minor adjustments.

Shared purpose: A relationship of shared purpose exists where information reported in different places contributes to a shared purpose.

Financial Statements and Other GPFRs

Financial Statements

Display: Information displayed on the face of the statements provides a structured overview of the entity's financial position, financial performance and cash flows.

Disclosure: Information disclosed in the notes is organized so that relationships to information on the face of the statements are clear. Information disclosed in the notes (a) is necessary to a user's understanding of the financial statements, (b) provides information that puts the financial statements into the context of the entity and its operating environment, and (c) may have a clear and demonstrable relationship to information displayed on the face of the financial statement(s).

Decisions about selection of information to be displayed and disclosed are made with reference to each other, and to effectively communicate an integrated set of information.

Other GPFRs

Information organization supports a report's achievement of the objectives of financial reporting and the QCs. Organization (a) helps ensure that key messages are understandable and users can find important information; (b) clearly identifies important relationships; and (c) facilitates comparisons.

Next Steps:

The deadline for comments is August 15, 2013.

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 (SMC) 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 respondents think we should consider in forming our views.

Comment letters will be posted on the IPSASB website.

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

The IPSASB plans to issue the final chapter on presentation in GPFRs, reflecting its actions to address respondents' comments, in 2014.

Stay Informed

The IPSASB will announce on its website the dates and location of meetings to discuss feedback on the ED.

To stay up to date about the project, please visit: <https://www.ifac.org/public-sector/projects/public-sector-conceptual-framework>