

PROJECT HISTORY

Contact: John Stanford (johnstanford@ipsasb.org)

September 2014

Preface to the Conceptual Framework for General Purpose Financial Reporting

The IPSASB considered a further version of the Preface. The IPSASB directed that:

- The term “compulsory” should be retained in the section in the section: *The Volume and Significance of Non-Exchange Transactions including Compulsory Transfers*;
- There should be a clearer statement that interpretation of the going concern principle in the public sector should consider the longevity of nation states and the nature of many public sector programs.
- A short discussion of public sector liabilities should be included, noting that many liabilities are related to the service delivery objectives of public sector entities and arise from non-exchange transactions. Liabilities may also arise from governments’ role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation; and
- The paragraph highlighting the Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*, which sets out the IPSASB’s process for considering GFS reporting guidelines during the development of IPSASs, should be deleted.

The IPSASB made a number of final structural and drafting changes. The IPSASB then approved the Preface.

Elements and Recognition

The IPSASB considered key issues identified by staff and further versions of draft chapters on elements and recognition.

Distinguishing a Present Obligation from Other Obligations

The IPSASB noted that public sector entities can have a number of obligations and discussed the distinction between a present obligation and other obligations that an entity may enter into. The IPSASB concluded that a present obligation is an obligation where an entity has little or no realistic alternative to avoid an outflow of resources.

Revenue as Gross or Net Inflows of Resources

The IPSASB considered whether discussion on the definition of revenue should specify whether the increase in net financial position giving rise to revenue is “gross” or “net”. The IPSASB recognized that a “gross” approach might not be appropriate in areas such as the disposal of property, plant, and equipment where such a definition would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Conversely, presentation of the “net” position on the face of the financial statements might not meet user information needs in certain circumstances, for example, the sale of inventory. The IPSASB concluded that whether the increase in net financial position represented by revenue should be presented gross or net should be determined at standards level, dependent on which treatment better meets the objectives of financial reporting.

The IPSASB approved final revised definitions of revenue and expense:

- Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions; and.
- Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

Recognition Criteria

The IPSASB determined that the recognition criteria should be:

- An item satisfies the definition of an element; and
- Can be measured in a way that satisfies the qualitative characteristics and constraints on information included in general purpose financial reports.

The IPSASB carried out a page-by-page review of Chapter 5, *Elements in Financial Statements* and Chapter 6, *Recognition in Financial Statements*, and identified a number of final drafting and editorial changes. The IPSASB approved the chapters.

Re-Exposure

Following approval the IPSASB considered whether parts of Chapter 5 should be re-exposed. The IPSASB acknowledged that the decision that other economic phenomena may need to be recognized in order to meet the objectives of financial reporting is a major shift from the proposal in the Exposure Draft to define deferred inflows and deferred outflows as elements. As such it represented a substantial change to the substance of a proposed international pronouncement. On that basis there is some case for re-exposure. On balance the IPSASB considered that all the viable options for dealing with deferred flows had been raised as part of the due process at Consultation Paper and Exposure Draft stages and had been considered thoroughly by the IPSASB. The IPSASB considered that the costs of re-exposure were unlikely to be commensurate with the benefits. The IPSASB voted against re-exposing the chapter.

Measurement

The IPSASB considered minor revisions made to the Conceptual Framework's Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, which had been approved in principle at the June 2014 IPSASB meeting. The revisions reflected directions at that meeting with further changes following a review for consistency with other parts of the Conceptual Framework. The IPSASB formally approved the revised chapter.

Presentation

The IPSASB considered revisions made to the Conceptual Framework's Chapter 8, *Presentation in General Purpose Financial Reports*, which had been approved in principle at the June 2014 IPSASB meeting. The 4 revisions reflected directions at that meeting and further changes following a review for consistency with other parts of the Conceptual Framework. The IPSASB formally approved the revised chapter.

June 2014

Phase 4

The IPSASB carried out a page-by-page review of the draft chapter and identified revisions to the text. The IPSASB then approved the chapter in principle.

Preface to Conceptual Framework

The IPSASB reviewed the *Preface to the Conceptual Framework* that had been published as a Preliminary Board View in July 2013. The IPSASB considered that the word “compulsory” should be used rather than “involuntary” in the context of taxes and transfers in the section on non-exchange transactions. The IPSASB also considered that the word “forecast” was inappropriate in the section on the approved budget. While it was noted that during the development of IPSAS 24, *Presentation of Budget Information in Financial Statements*, there had been detailed consideration of the relationship between original and final budgets and actual outturn, the IPSASB directed that the section should be modified to provide a high level indication of the importance of the approved budget in the public sector, rather than a detailed discussion of what constitutes the approved budget.

The IPSASB directed that the different objectives of IPSAS-based accounting and statistical accounting should be clarified. The IPSASB also identified a number of structural and editorial changes. The Preface will be brought back to the September 2014 meeting with a view to approval.

Elements

The IPSASB considered the following issues:

- Relocation of material on recognition into new Chapter 6 and restructuring of Chapter 5;
- Definitions of revenue and expenses;
- Discussion of approach to deferred flows and other economic phenomena in Basis for Conclusions; and

Discussion of financial performance in Basis for Conclusions.

Relocation of material on recognition into new Chapter 6 and restructuring of Chapter 5

The IPSASB confirmed the relocation of the section on Recognition to a separate chapter and the following revised structure of the Elements chapter:

- Introduction
- Assets
- Liabilities
- Net Financial Position
- Revenue and Expenses
- Ownership Contributions and Ownership Distributions

Definitions of Revenue and Expenses

The IPSASB decided to retain the word “expenses”, which had been used in both CF–CP2 and CF–ED2, rather than adopt the singular “expense”. The IPSASB rejected the initial revised definitions of revenue and expenses proposed by Staff and tentatively adopted more concise definitions:

- *Revenue is increases in the net financial position of an entity other than ownership contributions; and*
- *Expenses are decreases in the net financial position of an entity other than ownership distributions.*

Supporting narrative will outline the transactions, events and conditions that give rise to increases and decreases in net financial position and meet the definitions of revenue and expenses.

Discussion of approach to deferred flows and other economic phenomena in Basis for Conclusions

In general, the IPSASB supported the revised text on the development of the IPSASB's thinking on deferred flows and the reasons why the IPSASB had concluded that certain economic phenomena that do not meet the definition of any element may need to be recognized. The IPSASB directed that the Basis for Conclusions should provide greater detail on the other options identified in addressing the deferred flows issue at the December 2013 meeting and the reason why these options had been rejected. The IPSASB also directed that the discussion should be relocated to the section of the Basis for Conclusions on Net Financial Position.

Discussion of financial performance in Basis for Conclusions

Subject to minor drafting and editorial changes the IPSASB indicated that it was satisfied with the material on public sector financial performance (interpretation of surplus and deficit) in the Basis for Conclusions. The material discussed financial performance in the context of operating and funding model(s) in the public sector and noted that, although the IPSASB acknowledged that there is a need for greater clarity on the meaning of surplus and deficit in the public sector approaches to operating and finding models and the business model in the public sector are not well developed and, further, operating and funding models may vary globally. For this reason the IPSASB had decided not to include explanatory material on the interpretation of surplus or deficit in the core Framework.

While the revised and separate chapter discussed uncertainty over the existence of an asset and measurement uncertainty it did not provide explicit recognition criteria, The IPSASB directed staff to develop such recognition criteria.

Page-by-page review

The IPSASB carried out a page-by-page review of the two chapters and identified a number of drafting and editorial changes. During this page-by-page review the IPSASB considered whether there was scope for reducing unnecessary differences between the asset and liability definitions in then IPSASB's Conceptual Framework and those in the IASB's development of a revised Conceptual Framework. The IPSASB noted that the definitions are similar; in particular both sets of definitions contain references to a 'past event' (IPSASB) or 'past events' (IASB) The IPSASB agreed to slight modifications, which reduced, but did not eliminate the differences in wording. The revised definitions are:

- *An asset is a resource presently controlled by the entity as a result of a past event; and*
- *A liability is a present obligation of the entity for an outflow of resources that results from a past event.*

The IPSASB noted that the current IASB definition of a liability refers to a present obligation to "transfer an economic resource", whereas the IPSASB definition refers to a present obligation "for an outflow of resources". The IPSASB decided against using the word 'transfer' because of its public sector connotations, particularly those related to the financing of one level of government by another and to social benefits.

The IPSASB also considered the definition of ownership contributions and ownership distributions. The IPSASB considered whether the definitions should refer to net financial position or "resources". The IPSASB tentatively decided that the definitions should refer to net financial position. The revised versions are:

- Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity; and

- Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

While the revised and separate chapter discussed uncertainty over the existence of an asset and measurement uncertainty it did not provide explicit recognition criteria, The IPSASB directed staff to develop such recognition criteria.

The IPSASB will review a further version of the draft final chapters at the September 2014 meeting with a view to approval.

Measurement

The IPSASB considered two key issues identified by staff:

- Classification of value in use as reflecting entry or exit perspectives; and
- Retention of assumption price as current value measurement basis for liabilities

Classification of value in use as embodying entry or exit perspectives

At the March meeting the IPSASB concluded that value in use reflects both an entry and exit perspectives, because for non-cash-generating assets its determination relies on the use of replacement cost, which reflects an entry perspective. In accordance with this decision the table summarizing measurement bases for assets had been amended. Staff questioned the classification on the grounds that it appeared to conflict with both the description of an exit perspective and the definition of value in use. It was also agreed that the use of replacement cost in the determination of value in use should be described as a 'surrogate' not a 'proxy.'

Retention of assumption price

Staff expressed reservations whether assumption price should be retained as one of the four current value measurement bases for liabilities because;

- (a) it was unclear how it related to historical cost;
- (b) There are practical problems in reflecting price changes in assumption price; and
- (c) Assumption price was an inheritance from the cost of relief model and staff had reservations whether it would ever be applied in practice for standard setting purposes.

A member identified insurance and similar obligations as areas where assumption price might provide relevant and faithfully representative information. In such cases liabilities might be revalued at assumption price to reflect changes in risk premia following initial recognition. It was therefore decided to retain assumption price as a current value measurement basis and provide an explanation in the Basis for Conclusions of the IPSASB's reasons for its retention.

Page-by-page review

The IPSASB carried out a page-by-page review and identified a number of drafting and editorial changes. In particular the IPSASB directed that the sequence of the analysis of whether, and the extent to which, measurement bases provide information on financial capacity, operational capacity and cost of services should be aligned with the sequence of these terms in the measurement objective.

Approval in principle

The IPSASB approved the Measurement chapter in principle. 16 members voted in favor with one abstention.

March 2014

Timetable: The IPSASB accepted that more time is necessary to develop and restructure the chapters on Elements and Recognition and therefore agreed to put back final approval until September 2014. The IPSASB considered that it may be feasible to approve in principle the chapters on Measurement and Presentation at the June 2014 meeting and that this will be considered at that meeting.

Elements: The IPSASB considered the following issues:

- Terminology
- Definitions of an asset and a liability
- Net assets and net financial position
- Definitions of revenue and expense

Terminology

The IPSASB agreed that “other economic phenomena” is an overarching term that will be used in section 1 of the Elements chapter. The terms “other resources” and other obligations” will be used subsequently in the chapter.

Definitions of an asset and a liability

The IPSASB confirmed that the definitions of an asset and a liability are those agreed at the December 2013 meeting:

- An asset is a resource that an entity presently controls as a result of a past event; and
- A liability is a present obligation of an entity for an outflow of resources that results from a past event.

Net Assets and Net Financial Position

The definitions of an asset and a liability do not preclude reporting other resources and other obligations in the statement of financial position. IPSASs will provide details of circumstances where it is required or permitted to recognize transactions and events as other resources and other obligations. It will not be permitted to recognize economic phenomena as other resources or other obligations unless specified in an IPSAS.

Consequently the statement of financial position may report a net position that is not the difference between assets and liabilities (net assets). This amount is the net financial position. The net financial position is the aggregate of an entity’s net assets and other resources and other obligations. The IPSASB directed that the Framework will describe net financial position, but will not provide a detailed explanation, because the interpretation of net financial position and its relationship to net assets will be determined by reference to the nature of the other resources and other obligations recognized in the financial statements.

Capital maintenance

The IPSASB considered the financial and physical concepts of capital maintenance. The IPSASB considered that neither is directly applicable to the public sector, although the physical concept of capital maintenance might be the starting point to develop a concept of capital maintenance appropriate for the public sector. The IPSASB agreed with the internal Task Based Group recommendation not to insert capital maintenance concepts into the Framework. The Basis for Conclusions will indicate that IPSASB may carry

out work on developing a concept of capital maintenance that reflects the service delivery objectives of most public sector entities in the future.

Definitions of revenue and expense

The IPSASB considered two approaches to revising the definitions of revenue and expense following the decision not to define deferred inflows and deferred outflows as elements:

- (a) Define revenue and expense by reference to movements in net financial position; or
- (b) Define revenue and expense by reference to movements in net assets with an acknowledgement that definitions of revenue and expense neither preclude nor require other items to be reported in surplus or deficit

The IPSASB considered that the first approach is more transparent. IPSASB directed that Staff further develop the definitions of revenue and expense that were included in the draft final chapter based on this approach.

Financial performance

The IPSASB Board considered an explanation of financial performance linked to an entity's operating and funding model. Reservations were expressed that this related financial performance to an entity's business model and that the notion of such a model in the public sector is underdeveloped. It was therefore agreed that there would simply be a statement that "all items that met the definition of revenue and expenses and the recognition criteria set out in the chapter on recognition are reported on the statement of financial performance. The difference between revenue and expenses is the entity's surplus or deficit for the period."

Recognition of other resources and other obligations

The IPSASB concluded that consideration of measurement uncertainty is relevant for other resources and other obligations.

State of development of conceptual thinking

The IPSASB acknowledged the concepts applicable to financial reporting and the notions of financial performance and financial position to be reflected in the financial statements will evolve over time. The Basis for Conclusion will include such an acknowledgment and note that, as a consequence, the elements may be developed further in the future.

Page-by-page review

The IPSASB carried out a page-by-page review of the draft chapters. The IPSASB directions of the IPSASB included that:

- In the context of a present obligation in the definition of a liability the term "non-legally binding obligation" should be used rather than "other binding obligation";
- The section on recognition will be converted into a separate chapter with sub-sections on uncertainty of the existence of an element, measurement uncertainty and derecognition; and
- The remaining sections of the chapter will be restructured in the sequence:
 - Assets
 - Liabilities
 - Other Resources and Other Obligations
 - Net Financial Position

- Revenue and Expense
- Ownership Contributions and Ownership Distributions

The IPSASB agreed to review a further version of the draft final chapter at the June 2014 meeting.

Measurement: The IPSASB considered a number of issues including:

- Measurement objective and descriptions of financial capacity and operational capacity;
- Definitions of historical cost for an asset and a liability;
- Symbolic values; and
- Valuation of land under replacement cost.
- Basis for Conclusions on relationship between fair value and market value

Measurement objective and descriptions of financial capacity and operational capacity

The IPSASB considered a Staff view that the wording of the measurement objective should be amended, because of possible confusion between the phrase “most fairly reflect” and the qualitative characteristic of “faithful representation”. The IPSASB was not persuaded that such confusion would arise and reaffirmed that the measurement objective is:

To select those measurement bases that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

The IPSASB accepted a Staff proposal to modify the descriptions of operational capacity and financial capacity, in particular that the description of financial capacity should not refer to “operational objectives”.

The revised draft descriptions are:

Financial capacity: The capacity of the entity to continue to fund its activities.

Operational capacity: The capacity of the entity to support the provision of services in future periods through physical and other resources.

Definitions of historical cost for an asset and a liability

The IPSASB reviewed the draft definitions of historical cost for both an asset and a liability and directed that these be tightened:

Asset: The consideration given to acquire an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Liability: The consideration received to assume an obligation, which is the cash or cash equivalents or the value of the other consideration received at the time the liability is incurred.

The IPSASB noted that, in the context of liabilities, in a large number of public sector circumstances there is no consideration. In such circumstances historical cost will not be the suitable measurement basis and cost of fulfillment will be probably be appropriate. The IPSASB therefore directed that Staff review the structure of the section on liabilities to ensure that cost of fulfillment is given sufficient prominence.

Symbolic Values

The IPSASB redeliberated symbolic values. A view was expressed that not countenancing the use of symbolic values on “an exception basis” in the Conceptual Framework is to fail to address a public sector specific issue.

The IPSASB reaffirmed its view that symbolic valuation should not be included as a measurement basis because it does not meet the measurement objective. Staff was directed to (i) review the explanation of the arguments for including symbolic values as a measurement basis in the Basis for Conclusions and ensure that this reflected the views of those who favor the use of symbolic values; and (ii) ensure that the Basis for Conclusions discusses recognition and disclosure.

Valuation of land under replacement cost

Staff explained that under the replacement cost basis there are issues as to how land will be valued. Staff noted the examples of (i) residential land subsequently rezoned for use as a cemetery and (ii) a school with surplus capacity in a residential area. The issue is whether the land is valued as residential land or at a “discounted value” that reflects the existing use of the land. The IPSASB acknowledged the significance of these issues, but considered that they are standards-level in character. The IPSASB’s *Consultation on Work Program 2015-2019* includes a potential project on Measurement.

Fair value model and future relationship with fair value

Because the draft Basis for Conclusions did not include a rationale for the IPSASB’s decision not to include the fair value model in the final Framework staff drafted additional paragraphs providing such an explanation. The IPSASB was satisfied with these additional paragraphs.

In the context of paragraph BC27 of the Basis for Conclusions which provides the IPSASB’s reason for not including fair value as a measurement basis the IPSASB also agreed to the insertion of an explanation that the IPSASB sees fair value as a model to represent a specific measurement outcome and that the IPSASB may carry out further work at standards level on how the measurement bases in the Framework align with fair value.

Page-by-page review

In its page-by-page review the IPSASB concluded that value in use is both an entry and exit value and that the discussion and that the table summarizing of measurement bases for assets should reflect this. The IPSASB also directed that the table listing measurement bases for liabilities should include assessments of whether they are observable or unobservable in a market and entity or non-entity specific. The IPSASB also identified a number of editorial changes.

Presentation:

The IPSASB considered three issues related to development of the *Presentation in General Purpose Financial Reports* chapter. The first issue was coverage of the language in which GPFs are issued. The IPSASB considered text to address this issue, and then directed staff to include a revised version of the text in the first part of the draft chapter. Next the IPSASB discussed alternatives to the presentation terminology (presentation, display and disclosure) that had been included in the exposure draft. Staff had proposed evaluative criteria for terminology and two terminology alternatives for consideration. Other possible alternatives were highlighted for consideration. The IPSASB confirmed its existing approach to terminology, which addresses the more comprehensive scope of financial reporting by public sector entities. The third issue considered was a possible new structure for the chapter. The IPSASB directed that the Task Based Group (TBG) should review the benefits of restructuring the chapter along the lines proposed. Conditional on TBG support, IPSASB members will then consider the restructuring proposal through an inter-meeting consideration.

The IPSASB then carried out a page-by-page review of the draft chapter, and identified revisions to the text. The draft chapter will be revised and submitted to the IPSASB June 2014 meeting with a view to approval in principle. Depending on the outcome of the TBG’s and IPSASB’s intermeeting consideration,

revisions to the chapter prior to the June meeting may include restructuring along the lines proposed at the March meeting.

December 2013

Phase 2:

Deferred Inflows and Deferred Outflows

The IPSASB considered a proposal by the Phase 2: Task Based Group that the IPSASB adopt a hybrid approach that included components of the four options identified by Staff in an Issues Paper. The hybrid approach would allow reporting of inflows and outflows that do not affect assets and liabilities as defined in the Framework and the possibility of reporting of inflows and outflows that do not affect revenue and expenses. The main issue under this hybrid approach is whether to define such inflows and outflows as elements. On balance the TBG did not favor defining elements, because of the difficulties inherent in such an approach.

The IPSASB rejected this hybrid approach largely because of its complexity. Staff then summarized each of the four options in the Issues Paper:

- A. Defining deferred inflows and deferred outflows as elements in a manner that does not predetermine presentation of the elements;
- B. Deriving the definitions of revenues and expenses from the asset and liability definitions;
- C. Broadening the asset and liability definitions; and
- D. Accepting that certain economic phenomena do not meet the definition of any element.

For each option staff listed the main advantages claimed by its supporters and the main disadvantages put forward by those who opposed it. Option A differed from the approach in CF–ED2 because the definitions of deferred inflows and deferred outflows would not be restricted to non-exchange transactions and would not require that the flows should be related to a specified future period.

Under Option B deferred inflows and deferred outflows would not be defined as elements but treated as revenue and expenses. Option B would deal with deferred flows through a combination of display on the face of the financial statements and disclosure through notes. There were two variants of this option. In the first variant deferred flows would be taken directly to surplus/deficit, while in the second variant deferred flows would initially be taken to residual amount (net assets/equity) and then recycled in the period that time stipulations occur.

Under Option C the definitions of an asset and a liability would be modified to include references to “certain deferred credits/debits” (or similar terminology) rather than defining additional elements. Staff noted that such an approach had been explored, but not fully developed, in the early 1970s in the United States. Staff noted a criticism at that time that the approach allowed virtually any phenomena to meet the definition of an asset or a liability.

As in Options B and C under Option D deferred inflows and deferred outflows would not be defined. Option D acknowledges that there are transactions and events that give rise to economic phenomena that do not meet the definition of any of the elements. Such economic phenomena may need to be recognized in financial statements in order to meet the objectives of financial reporting.

Following discussion and informal voting Members decided to adopt Option D. Staff and the TBG was directed to further develop Option D for the next meeting, in particular focusing on the impact of the option on the definitions of revenue and expenses and approaches to surplus/deficit.

Definitions of an Asset and a Liability

The IPSASB accepted a Staff View that the definitions of an asset and a liability should be modified, so that they read more elegantly. The definitions have not changed substantively. The revised definitions are:

- An asset is a resource that an entity presently controls as result of a past event; and
- A liability is a present obligation of an entity for an outflow of resources that results from a past event.

Definitions of Ownership Distributions and Ownership Contributions

The IPSASB also agreed with the staff view that the phrase “in their capacity as owners” should be inserted into the definition of “ownership distributions” and also, directed that it should be included in the definition of “ownership contributions”. The revised draft definitions of these two elements are:

- Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, that return or reduce an interest in the net assets of the entity; and
- Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners that establish or increase an interest in the net assets of the entity.

Measurement:

The IPSASB considered an Issues Paper covering:

- Definition of Historical Cost;
- Paragraphs on Suitability of Specific Measurement Bases;
- Symbolic or Nominal Values;
- Relocation of Material from Section of CF–ED3 on the Fair Value Model;
- Net Selling Price; and
- Other Issues
 - Valuation of Assets on Standalone Basis or on the Basis that They will be Used in Conjunction with other Assets/Liabilities (Unit of Account);
 - Income-based Present Value Valuation Approaches; and
 - Other Cash-Flow-Based Measures.

Definition of Historical Cost

The IPSASB agreed that historical cost should be defined for both an asset and a liability but considered that the proposed staff definition insufficiently took into account non-exchange transactions. The IPSASB directed that the tentative definition should be:

The consideration given to acquire an asset, which might be the cash or cash equivalents or the value of the other consideration given at the time of its acquisition or development.

The definition for a liability would mirror this. There will also be a short paragraph on the cost model in both the sections on assets and liabilities.

Paragraphs on Suitability of Specific Measurement Bases

It was agreed that, because of the adoption of a specific Measurement Objective, sub-sections on the *Suitability of Specific Measurement Bases* were no longer required. Staff was asked to consider what material from these sections should be retained in the final Chapter for the March meeting.

Symbolic Values

Some strong opposition was expressed about the non-inclusion of symbolic values as a measurement basis to accommodate certain items where it is not possible to obtain a valuation or where an accounting policy had been adopted that such items should not be valued. However, the IPSASB reaffirmed the view that symbolic values do not constitute a measurement basis. Staff was directed to ensure that the rationale for including symbolic values as a measurement basis is adequately stated in the Basis for Conclusions as well as the rationale for rejecting such an approach.

Relocation of Material from Section of CF–ED3 on the Fair Value Model

It was agreed that some of the material from the section on the Fair Value model should be relocated to the sub-section on Market Value. However, material on the assumptions that estimation techniques include was too low level and should be deleted.

Net Selling Price

The Board agreed with the staff analysis that the value of an asset would not be displayed at less than zero, but, in the circumstances where the costs of sale are estimated to exceed the proceeds, there is a possibility that a liability might arise from an onerous contract. It was also accepted that under such circumstances the rational approach would be to continue to use the asset rather than immediately sell it. It was agreed that there is no reason to include a reference to this issue in the Basis for Conclusions.

Structure and Format of Section on Liabilities

It was agreed that the structure and format of the section on Liabilities, which is less detailed than that on Assets, should be broadly retained in order to avoid the introduction of repetitive material.

Valuation of Assets on Standalone Basis or on the Basis that they will be used in Conjunction with other Assets/Liabilities (Unit of Account)

It was agreed that there should be a short paragraph on the unit of account, but that this should be termed the *Level of Aggregation and Disaggregation* and that there should be a linkage to recognition.

Income-based Present Value Valuation Measures

The IPSASB agreed that the reference, in the context of estimating market value whether a market is inactive or otherwise not open or orderly, that estimation techniques may include conversion of cash flows to a single discounted amount is adequate.

Other Cash-Flow-Based Measurements

The IPSASB agreed not to add a category: Other Cash-Flow-Based Measurements on the basis that such measurement bases are addressed adequately in other measurement bases.

The IPSASB then carried out a page-by page review and identified a number of editorial and minor changes.

Presentation: The IPSASB carried out an in-depth review of responses to CF–ED4, *Presentation in General Purpose Financial Reports*. With respect to three fundamental issues raised by respondents, the IPSASB confirmed that presentation concepts should continue to: (a) focus widely on concepts applicable to both the financial statements and information additional to the financial statements, (b) remain at a high,

general level rather than include more detailed coverage, and (c) treat the project as public sector focused rather than an attempt to converge with the IASB's developing concepts, while monitoring those developments for their relevance. With respect to point (c) IPSASB Members considered responses on the ED's proposed presentation terminology, which was the most controversial issue for respondents and directed staff and the TBG to consider whether there was scope to align with the IASB's approach to terminology. Staff will also develop recommendations with respect to respondents' detailed specific comments.

Next steps are for draft chapters to be developed for the IPSASB's consideration at its March 2014 meeting.

September 2013

Timetable: Following a review of the timetable the IPSASB agreed to put back the projected approval date for the final chapters from Phases 2, 3 and 4 and the Preface to June 2014.

IASB Update: The IPSASB noted that the IASB's Discussion Paper, *A Review of the Conceptual Framework for Financial Reporting*, had been issued on July 18, 2013. The IPSASB discussed aspects of the Discussion Paper, particularly the proposed asset and liability definitions and the approach to measurement. The IPSASB noted that there was substantive congruence between the asset and liability definitions of the IPSASB and the IASB. The IPSASB also noted that the IASB is currently proposing a mixed measurement approach for measurement and a measurement objective that is not based on a concept of capital or capital maintenance. The IPSASB also noted the IASB's evolving approach to presentation and the narrow and broad approaches for distinguishing Other Comprehensive Income items from profit and loss.

Elements: The IPSASB continued its review of responses to the Exposure Draft, *Elements and Recognition in Financial Statements*, (CF-ED2).

The IPSASB discussed staff papers which included further analysis of responses to CF-ED2 and an analysis of the measures of financial performance, net assets and net financial position that would result from application of CF-ED 2 and the Alternative Views in different circumstances. The IPSASB noted that a majority of respondents did not support the identification of deferred inflows and deferred outflows as separate elements and expressed concern about the measures of financial performance that would result from their application.

Members discussed how this aspect of the proposals in CF-ED2 might be further developed, including the following approaches identified by staff and the Task Based Group (TBG):

- A presentational approach which would identify and describe time stipulated inflows and outflows that did not satisfy the definitions of assets or liabilities as separate classes of revenue or expense, noting that the separate disclosure of this class of revenue or expense had informational value. The statement of financial position would also identify the assets that were subject to time stipulations.

An approach that disengaged the identification and definition of the elements from issues related to their presentation, and refocused this proposed Chapter of the Conceptual Framework on only the identification and definitions of the elements. The composition and type of the financial statements that would be used to present the elements could then be specified at standards level, may evolve over time and may be influenced by jurisdictional considerations. Consistent with this approach, the Conceptual Framework would:

- Identify the elements of financial statements as assets, liabilities, revenue, expenses, ownership contributions and ownership distributions and acknowledge that certain deferred items that did not satisfy the definition of these elements may also be presented in the financial statements, and may be identified as separate elements; and
- Not specify the measure (or measures) of financial performance that was to be reflected in the financial statements, or the financial statements in which each element would be recognised.

The IPSASB agreed to consider these approaches further at the IPSASB's December 2013 meeting.

The IPSASB then continued its review of responses dealing with the definition and explanation of the other elements, and staff's proposed amendments to give effect to decisions made at the June 2013 IPSASB meeting. The IPSASB agreed to make:

Refinements to sharpen the definition of an asset and clarify the relationship of a resource to an asset, and refinements to the definition of a liability and description of a present obligation for similar effect;

Enhancements to the Basis for Conclusions to, for example:

- Explain the public sector circumstances that underpin the IPSASB's approach to use of terms such as stand-ready obligations and performance obligations in the Conceptual Framework, and identification of the indicators of control of an asset;
- Clarify that whether or not assets and liabilities arise from executory contracts depends on satisfaction of the definitions and recognition criteria in the Framework, and confirm that the IPSASB has the capacity to respond at standards level to concerns about the adverse impact on understandability that recognizing gross amounts of any elements might have; and
- Note that guidance may be provided at standards level on dealing with circumstances in which there is significant uncertainty about whether an element exists, and therefore would satisfy the criteria for recognition.

The IPSASB also discussed issues identified by respondents in respect of the definitions of revenues and expenses and agreed these matters would be revisited pending decisions on the identification of deferred inflows and deferred outflows as elements.

Measurement: The IPSASB continued its review of responses to CF-ED3. The IPSASB noted the view that the Framework should be aspirational and adopt a measurement objective based on an ideal concept of capital. The IPSASB concluded that different assets and liabilities contribute to financial capacity or operational capacity in different ways and directed that the mixed- measurement approach in CF-ED3 should be retained. The IPSASB considered a view that the rationale for historical cost could be strengthened by including a view that historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, thereby enhancing accountability and agreed that this should be reflected in either the core text or basis for conclusions of the final chapter.

The IPSASB reviewed the measurement objective in the Alternative View (AV) in CF-ED3 and considered the view of the Task Based Group that the objective could accommodate historical cost through the linkage with the cost of services where CF-ED3 stated that historical cost might be considered appropriate for accountability purposes. The IPSASB directed that the measurement objective in the AV should be adopted with a minor wording change. The objective in the draft final chapter will therefore be: *To select those measurement bases that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*

The IPSASB considered the four current value measurement bases for assets proposed in CF-ED3: market value, replacement cost, net selling price and value in use. Staff again highlighted the views of those who argued that the omission of fair value is a serious defect and noted that current value measurement requirements or options in a number of existing IPSASs rely on fair value. Staff noted that the fair value definition in IFRS 13, *Fair Value Measurement*, is explicitly an exit value, which refers to the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” It therefore differs from the definition of fair value in the IPSASB’s literature that is based on the pre-IFRS 13 definition of fair value. Staff expressed a view that there were three options: (i) adopt the IFRS definition of fair value; (ii) retain the current definition IPSASB of fair value; or (iii) remove fair value as a measurement basis altogether and replace with market value. There are disadvantages with all these approaches. Adopting the IFRS definition would mean using a definition of fair value that is not well aligned with the objectives of most public sector entities—the delivery of services rather than the generation of cash flows. Retaining the current definition or a slightly modified version of the current definition in the IPSASB literature would mean that two global standard setters would have different definitions of the same term. Defining market value rather than fair value has implications for the IPSASB’s current literature, which, as indicated above, uses fair value widely.

The IPSASB noted that fair value had been developed over recent years and that the IPSASB approach to fair value had not developed in step. After considerable debate the IPSASB decided to retain market value in the final chapter. The IPSASB also decided to retain replacement cost and to note that replacement cost should be referred to as an optimized basis that reflects depreciation and relates to the replacement of service potential rather than an actual asset. It was also agreed that where there is a market that is sufficiently open, active and orderly market value may be the appropriate measurement basis for operational assets, such as administrative buildings.

The IPSASB discussed a view that net selling price is a variant of fair value and that it should not be retained as a separate basis in the final chapter. The IPSASB took the view that net selling price may relate to contractually-agreed terms that do not reflect an open, active and orderly market and that it may also reflect an intention to make an immediate exit from an asset. It should therefore be retained as a separate measurement basis. The IPSASB also decided to retain value in use, noting that its applicability might be quite limited, mainly to impairments.

The IPSASB confirmed the tentative view at the June meeting that the fair value model-method of determining market value where it has been determined that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly- and the deprival value model for selecting a current value measurement basis for operational assets should not be retained in the final chapter. Some of the material in the fair value model can be relocated in the section of the chapter on current value measurement bases dealing with market value and some of the insights in the deprival value model can be included in the sections dealing with replacement cost, net selling price and value in use.

The IPSASB confirmed that five measurement bases for liabilities proposed in CF-ED3 should be retained: historical cost, market value, cost of fulfillment, cost of release and assumption price. It acknowledged the need to limit the number of measurement bases and the views of those who argued that cost of release and assumption price are of limited applicability in the public sector. Nevertheless, the IPSASB directed that the cost of release and assumption price will be retained. The Basis for Conclusions of the Final Chapter will note that these bases are unlikely to be applicable to many transactions in the public sector, particularly in a non-exchange context.

The IPSASB agreed that in the final chapter there should be references to the unit of account, income-based present value valuation approaches for estimating market value and other cash-flow based

measures that are not to provide a market value. For liabilities such references might be included in discussion of the cost of fulfillment.

Presentation: Staff provided a preliminary high level review of responses to CF–ED4, *Presentation in General Purpose Financial Reports*. [33 responses](#) had been received by mid-September. A majority of respondents supported the concepts in CF–ED4. The most controversial issue was the ED’s presentation terminology. There will be a detailed review of responses to CF–ED4 at the IPSASB’s December 2013 meeting.

June 2013

Timetable: The Board noted the challenging timetable for finalization of the Conceptual Framework, and agreed that the timetable should be considered further at the September meeting after an initial assessment of the responses to CF–ED4.

Preface and Relationship to IASB Framework: The Board discussed the relationship of the Conceptual Framework to the International Accounting Standards Board’s (IASB) Framework project and the projected issue of an integrated Discussion Paper by the IASB in July 2013. The Board reaffirmed that the Conceptual Framework is a public sector critical project, and neither an interpretation of the IASB’s current and evolving IASB Framework nor an IFRS convergence project. IPSASB Staff will review the IASB’s Discussion Paper when it is issued in July in order to avoid unwarranted differences in terminology.

Elements: The IPSASB carried out a preliminary review of the 40 responses to CF–ED2 received by May 15, 2013 and discussed a collation and summary of the responses and an initial staff analysis. The IPSASB acknowledged that a majority of respondents did not support deferred inflows and deferred outflows as elements and noted that a number of these respondents supported the two Alternative Views in CF–ED2. However, the IPSASB noted that a range of views had been expressed by those who oppose deferred inflows and deferred outflows on approaches to dealing with flows that contain timing restrictions. The IPSASB considered that this reflected a need to consider the meaning of financial performance and financial position in the public sector. The IPSASB therefore directed staff to undertake an analysis of financial performance and financial position for the September meeting.

The IPSASB tentatively reaffirmed that the definition of an asset should include control as an essential characteristic and that the definition of both an asset and a liability should include a past event(s) as an essential characteristic. While acknowledging the views of those respondents that argued that liabilities can only arise from legal (or equivalent) obligations the IPSASB tentatively reaffirmed its view that non-legal binding obligations can give rise to liabilities if specified conditions are met.

The IPSASB deferred discussion of the definitions of revenue and expenses as these are largely dependent upon decisions on deferred inflows and deferred outflows. The IPSASB tentatively reaffirmed the approach in CF–ED2 to define ownership contributions and ownership distributions, but not to define ownership interests. The IPSASB agreed to give further consideration to recognition at a future meeting. In the context of existence uncertainty the IPSASB will consider the possibility of acknowledging that thresholds might be introduced at standards-level, rather than being specified in the Framework.

Measurement: The IPSASB carried out a preliminary review of the 37 responses to CF–ED3 received by May 15, 2013 and discussed a collation and summary of the responses and an initial staff analysis. It directed staff to develop a measurement objective based on the objectives of financial reporting, including the provision of information on operational capacity, financial capacity and the cost of services, and the qualitative characteristics. The starting point will be the objective proposed in the Alternative View in CF–

ED, with consideration whether it is too oriented to current measurement bases and, if so, how it might be amended.

The IPSASB acknowledged the views of those who supported the retention of fair value as a measurement basis and considered that replacement cost is a valuation technique to estimate fair value not a measurement basis in its own right. The IPSASB tentatively reaffirmed that fair value would not be adopted as a measurement basis for the public sector largely because of the specific meaning of the term “fair value” in IFRS 13. However the extent to which market value is applicable to non-specialized operational assets should be made clearer. The IPSASB would also further consider whether the term “optimized depreciated replacement cost” should be used to indicate that replacement cost is based on an assessment of service potential rather than replacement of a particular asset.

The IPSASB considered whether the fair value and deprival value models outlined in CF–ED3 should be retained. It noted the views of respondents who expressed reservations about not including fair value as a measurement basis, but using the fair value model to estimate market value where a market is inactive or not open and orderly. The IPSASB also noted the views of many respondents that the deprival value model is complex and costly. The IPSASB tentatively decided that while some of the perspectives in both the fair value and deprival value models would be retained, the models themselves would not be included in a final chapter.

March 2013

Preface: The IPSASB discussed the approach to incorporation of the Preface in the Conceptual Framework. The IPSASB confirmed that the Preface should be included in the Framework, but it was decided to defer approval and publication until the Framework is being finalized. Such an approach will allow the linkages with the concepts in the Framework to be made more explicit. The IPSASB reviewed a further draft of the Preface and made directions for amendments to some of the sections, particularly those dealing with involuntary transfers and non-exchange transactions and the longevity of the public sector.

January 2013

First four chapters of Framework covering Phase 1 topics are published (Role and Authority of Framework; Objectives and Users of General Purpose Financial Reporting; Qualitative Characteristics; and Reporting Entity).

December 2012

Phase 1: The IPSASB approved for issue the first four chapters of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework): Chapter 1-*Role and Authority of the Conceptual Framework*; Chapter 2- *Objectives and Users of General Purpose Financial Reporting*; Chapter 3- *Qualitative Characteristics* Chapter 4- *Reporting Entity*.

The IPSASB also reviewed a draft Preface to the Conceptual Framework which identified features of the public sector environment which underpinned and influenced the concepts reflected in the Conceptual Framework. The IPSASB agreed the Preface would be further developed and included in the Framework in the future.

November 2012

CF–ED2 and CF–ED3 are published with response deadlines of April 30, 2013.

September 2012

Phase 1: The IPSASB decided that the Phase 1 chapters should be brought to the December 2012 meeting for approval, with a view to publication in late 2012 or early 2013. The IPSASB acknowledged that there will need to be amendments to IPSAS 1, *Presentation of Financial Statements*, and will discuss the timing of this at a subsequent meeting. The ED, *Key Characteristics of Financial Reporting with Potential Implications for Financial Reporting*, will also be reconsidered at the December meeting.

Elements: The IPSASB considered a further version of Conceptual Framework Exposure Draft 2 (CF–ED2), *Elements and Recognition in Financial Statements*. For the definition of a liability, in the context of a present obligation, the IPSASB agreed to use the term “non-legal binding obligation” rather than the term “constructive obligation.” The IPSASB agreed to continue to propose deferred inflows and deferred outflows as elements. As a result, the residual amount will be net financial position rather than net assets. These elements are limited to non-exchange transactions where the resources are to be used over specified future reporting periods. The definitions of revenue and expenses were modified to deal appropriately with their relationship with deferred inflows and deferred outflows.

The IPSASB approved the ED. An Alternative View will highlight disagreement over the proposal to define deferred inflows and deferred outflows as elements and the reliance on the exchange/non-exchange distinction in the ED. The ED has a response date of April 30, 2013.

Measurement: The IPSASB considered a further version of an ED, *Measurement of Assets and Liabilities in Financial Statements*. The IPSASB decided not to propose both market value and fair value as measurement bases. Section 3 of the ED deals with current measurement bases: market value, replacement cost, net selling price and value in use. A new section 4 addresses the fair value model as a way of estimating a market value where an active market does not exist. This section also discusses the use of a measurement basis or a valuation methodology as surrogates for the most appropriate measurement bases and valuation methodologies and the deprival value model as a method of guiding the selection of a current measurement basis for operational assets, primarily held for their operating capacity, where further analysis is required after an initial assessment of an appropriate measurement basis based on the objectives of financial reporting and the QCs.

The ED was approved with one member voting against and one abstention. The ED will include an Alternative View that reflects a view that an overarching measurement objective is necessary, rather than a measurement objective that refers back to the objectives and QCs. The ED will have a consultation expiry date of April 30, 2013.

Presentation: The IPSASB carried out a first review of the 39 responses to the Consultation Paper, *Presentation and Disclosure in General Purpose Financial Reports*. The IPSASB noted concerns from respondents about the more comprehensive scope of this phase of the Framework, i.e., financial reporting broader than the financial statements. The IPSASB decided to continue with the more comprehensive scope, but to consider the financial statements in more detail. The IPSASB noted that there had been considerable reservations about terminology, particularly where terms had been used differently than in other conceptual analyses of presentation and disclosure in the context of the financial statements. The IPSASB decided to continue with the terms “presentation”, “display” and “disclosure”, but to develop them further and explain them better. Noting significant concerns by respondents the IPSASB decided not to

continue with the terms “core” and “supporting”. Instead they would be replaced with descriptions of the types of information that should be considered either for display or for disclosure, emphasizing both understandability and the idea that the location of information should not mislead.

The IPSASB also decided to continue with an approach that involves (i) focusing on user needs to identify presentation objectives, (ii) applying the QCs to presentation decisions, and (iii) separate presentation concepts. However, it was decided that presentation objectives should be identified and included in CF–ED4, Presentation, rather than being left to the standards-level.

A first draft ED will be considered the IPSASB’s December meeting.

June 2012

Elements: The IPSASB considered some key issues and reviewed a preliminary draft of CF–ED2.

The IPSASB decided to define deferred inflows and deferred outflows as separate elements. The definition is to be restricted to certain non-exchange transactions. Such transactions include involuntary transfers of resources, notably taxation, which may be received prior to the period in which they will finance the provision of goods and services. These elements also relate to transfers of resources provided in one reporting period to be used in a specified future reporting period, without performance and return obligations. Staff was directed to expand the explanation in the Basis of Conclusions on the IPSASB’s reasons for defining deferred inflows and deferred outflows as separate elements and rejecting the other options for dealing with deferred flows of resources.

Since a deferred outflow is not an asset and a deferred inflow is not a liability, the IPSASB considered a description for the key residual amount representing the aggregate of an entity’s assets plus deferred outflows less the entity’s liabilities and deferred inflows in the Statement of Financial Position at the reporting date. The IPSASB concluded that “net financial position” is an appropriate designation.

The IPSASB agreed that enforceability through legal or equivalent means is not an essential characteristic of a liability. The IPSASB accepted that the term “constructive obligation” has been problematic in the public sector, but expressed reservations about the alternative term “social or moral obligation” proposed by the Task Based Group and Staff. It was tentatively decided to retain the term “constructive obligation”. The IPSASB directed that an explanation should be included on interpreting the phrase “little or no realistic alternative to avoid an outflow of service potential or economic benefits” in the definition of a liability. Reservations were expressed about over-emphasizing the importance of funding in interpreting the phrase.

The IPSASB also considered the most appropriate way to address recognition in the Conceptual Framework. Currently existence uncertainty is addressed in the context of the definitions of a liability and an asset. Staff and the TBG proposed that measurement uncertainty should be addressed as part of Phase 4: Presentation. The IPSASB did not make a decision on this issue and directed that an Issues Paper should be developed and brought to the September meeting.

A further draft of CF–ED2 will be considered in September.

Measurement: The IPSASB reviewed a first draft of CF–ED3. The IPSASB was content with much of the content, but directed that the ED should be modified to:

- Indicate that because historical cost provides a direct link to transactions actually undertaken by the entity under certain circumstances it can be used to assess whether resources have been used economically and efficiently and thereby, in particular, meet the objective of accountability;

- Clarify the relationship between the QCs and the complexity and subjectivity involved in specific measurement bases;
- Replace the term “current exchange value” with “market value”;
- Restructure the ED so that one section deals with “Current Measurement Bases” and includes sub-sections on Market Value, Net Selling Price, Replacement Cost and a new sub-section on Fair Value, which will involve the relocation of material currently in the Basis for Conclusions; and
- Include a simple matrix indicating whether particular measurement bases adopt and entry or exit perspective and whether they are based on observable or non-observable market values.

A further draft of CF–ED3 will be considered in September.

March 2012

Phase 1: The IPSASB completed its review of a draft Framework dealing with the matters addressed in CF–ED1. The IPSASB provided Staff with directions for development of a final draft of this Phase of the Framework. The IPSASB also agreed that the final draft should be revisited as other Phases of the Conceptual Framework are further developed to identify and resolve any overarching issues and to ensure that all Phases of the Framework articulate. The IPSASB confirmed that the major features of the draft Phase 1 Framework are to reflect the following.

- The Role and Authority of the Framework and the Scope of Financial Reporting:
 - The Conceptual Framework will establish the concepts that underpin financial reporting and will be applied by the IPSASB in developing IPSASs. The Framework will not establish authoritative requirements or override the requirements of IPSASs, but can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB.
 - GPFs encompass financial statements, including notes thereto, and the presentation of information that enhances, complements and supplements the financial statements.
- The Objectives, Users and Information provided by GPFs:
 - The primary users of general purpose financial reports (GPFs) are service recipients (and their representatives) and resource providers (and their representatives).
 - The objectives of financial reporting are the provision of information useful for accountability and decision making purposes by users.
 - GPFs can provide information about:
 - Financial position, financial performance and cash flows;
 - Budget information;
 - Service delivery achievements;
 - Prospective financial and non-financial information; and
 - Explanatory information.
- The Qualitative Characteristics (QCs) of, and Constraints on, Information included in GPFs:

- The QCs are relevance, faithful representation, understandability, timeliness; comparability, and verifiability.
- The constraints are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.
- The Reporting Entity:
 - A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFs. It may comprise two or more separate entities that present GPFs as if they are a single entity.
 - Key characteristics of a public sector reporting entity are that:
 - It is an entity that raises economic resources from, or on behalf of, constituents and/or uses economic resources to undertake activities for the benefit of, or on behalf of, those constituents; and
 - There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.

Elements: The IPSASB completed its review of the 36 responses received to CF–CP2. The IPSASB considered the five outstanding questions in CF–CP2, for which it had not previously provided directions to Staff. The IPSASB also considered in more detail the nature of enforceability, whether enforceability should be a key characteristic of a liability arising from obligations related to non-exchange transactions and approaches to deferred inflows and deferred outflows. These issues had first been discussed at the December 2011 meeting.

The IPSASB reconsidered the position of “service potential” and “economic benefits” in the definition of an asset. The IPSASB agreed that the phrase “service potential or economic benefits” should be used in the definition of an asset.

Having acknowledged that ownership interests exist in the public sector, the IPSASB considered whether such interests should be defined as an element. The IPSASB concluded that ownership interests are not a prevalent feature of the public sector but that certain components of ownership interests would have to be defined so that they can be distinguished from revenue and expenses.

The IPSASB concluded that enforceability is not a key characteristic of a liability for either an obligation arising from an exchange or a non-exchange transaction. The IPSASB directed Staff to carry out further work on the nature and interpretation of constructive obligations in the context of non-exchange transactions.

The IPSASB decided to explore further all approaches to deferred outflows and deferred inflows, including presentation as well as defining separate elements.

The IPSASB also considered and provided directions on a preliminary outline of an Exposure Draft of the Elements and Recognition section of the Conceptual Framework.

Key Characteristics of the Public Sector: The IPSASB considered the responses to the Exposure Draft (ED), *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. The majority of respondents were supportive of the ED and considered that it should be published in its entirety with the Conceptual Framework.

Respondents expressed some specific reservations, principally that:

- The ED had not highlighted adequately the areas where the identified characteristics have an impact on public sector financial reporting; and
- A number of the identified characteristics are either not specific to the public sector or are over-emphasized.

The IPSASB decided that the ED should be further developed and reconsidered at a future meeting.

Staff was also directed to carry out further work on the linkages with the 4 phases of the Conceptual Framework project as part of the identification and resolution of overarching issues.

December 2011

The IPSASB considers whether to issue an integrated (umbrella) ED comprising all four phases of the Framework. The IPSASB decides to defer a final decision until the phases have been further developed.

1. The IPSASB considers a further draft of the Phase Four Consultation Paper. Following further elaboration of the discussion of display, core and supporting information, the IPSASB approves a Consultation Paper on Presentation, with an exposure period of four months.
2. The IPSASB completes its review of responses to the Phase 1 ED. The IPSASB provides staff with directions for the preparation of a first draft of the Framework for consideration in March 2012. Amongst such directions are:
 - The primary users of general purpose financial reports (GPFRs) are service recipients (and their representatives) and resource providers (and their representatives) and the objectives of financial reporting are the provision of information useful for accountability and decision making purposes by users. The IPSASB also directed that the explanation of the relationship between users, objectives and information that may be provided by GPFRs should be strengthened;
 - The scope of financial reporting should be broad enough to encompass financial statements, including notes thereto, and the presentation of information that enhances, complements and supplements the financial statements; and
 - The qualitative characteristics (QCs) of information included in GPFRs are relevance, faithful representation, understandability, timeliness; comparability, and verifiability. The IPSASB also directed that:
 - the QCs are not to be identified as fundamental or enhancing – rather, that the QCs work together to contribute to the usefulness of information; and
 - the draft is to explain that materiality will be considered by the IPSASB in developing IPSASs and by individual entities in preparing GPFRs, and that it can relate to a number of the QCs;
3. The IPSASB also considers a first draft of a revised reporting entity section and provides directions for its further development, including that the next draft should reflect that a public sector reporting entity would encompass economic resources and activities (rather than focusing the explanation on the provision of goods or services).
4. The IPSASB continues its review of responses to the Phase 2 Consultation Paper, organizing the Specific Matters for Comment into themes.

5. The IPSASB explores the approaches to reporting financial performance and the determination of revenues and expenses for a reporting period. It takes the view that rigidly contrasting asset and liability-led and revenue and expense-led approaches is not helpful. The IPSASB concludes that there is information value in the identification of inflows and outflows applicable to particular reporting periods, but expresses some reservations that adopting such approaches might create inappropriate incentives to defer expenditure and income. The IPSASB directs Staff to further consider approaches to reporting financial performance, including the need for definitions of additional elements.
6. In the context of the definition of a liability, the IPSASB also discusses the enforceability of obligations. The IPSASB considers whether a distinction should be drawn between exchange and non-exchange transactions and whether non-enforceable constructive obligations give rise to (i) liabilities for neither exchange nor non-exchange transactions; (ii) liabilities for only exchange transactions; or (iii) liabilities for both exchange and non-exchange transactions. The IPSASB decides to focus further discussion on the view that only enforceable obligations might give rise to liabilities for both exchange and non-exchange transactions. It directs staff to further consider the implications of such an approach and, in particular, to consider the meaning of the term 'enforceability' and the issue of obligations where only the elapse of time prevents an obligation from being enforceable at the reporting date.
7. In other areas, the directions to Staff reflect tentative views that:
 - sovereign rights and powers only give rise to assets when such rights/powers are exercised;
 - the sovereign power to repudiate obligations should not be used as a rationale not to recognize obligations that would otherwise meet the definition of a liability;
 - the definitions of both assets and liabilities should include reference to a past event;
 - the definitions of revenue and expense should not be limited to ordinary activities;
 - generally net assets/net liabilities are residual amounts rather than residual interests or ownership interests. However, Staff is directed to consider further the existence of ownership interests at whole of government level.
8. The initial discussion on Phase 3 focuses on whether an overall measurement objective should be developed, and, if so, what that measurement objective should be. The IPSASB agrees that a measurement objective should be developed, but does not advocate that such an objective should represent current value or another measurement basis. Staff is directed to develop a measurement objective reflecting user needs, the objectives of financial reporting and the QCs.
9. The IPSASB considers a proposed outline of an ED on Phase 3. The IPSASB confirms that the list of measurement bases that are intended to be addressed in the ED is appropriate: historical cost, market values, fair value, replacement cost, value in use and net selling price. It is suggested that the discussion of fair value should be general rather than in the context of convergence or maintaining alignment with IFRS. It is also suggested that the notion of 'optimality' inherent in depreciated replacement cost can be confusing to some users and that this needs to be discussed in the ED.

September 2011

The IPSASB considers a further draft of the Phase Four Consultation Paper dealing with Presentation, which refines and reduces the number of presentation concepts and contains alternative approaches based

on direct application of the QCs and a more extensive analysis of user needs. The IPSASB considers that the approaches are not oppositional and directs that they be integrated in a further revision.

10. The IPSASB conducts an initial review of responses to the Phase One ED and focuses discussion on the role, authority and scope of the Framework. It also considers the approach to the reporting entity and group reporting entity. No decisions are made.
11. The IPSASB conducts an initial review of responses to the Phase Two Consultation Paper dealing with Elements and Recognition. Tentative agreement is reached that the definition of an asset should include reference to both service potential and economic benefits and that the definition of a liability should not include identification of a specific party to whom an obligation is owed or a requirement for a settlement date.
12. The IPSASB conducts an initial review of responses to the Phase Three Consultation Paper dealing with Measurement. The IPSASB directs Staff to develop a single measurement objective.

June 2011

The IPSASB considers a further draft Consultation Paper on Presentation (Phase Four) with six presentation concepts mapped to the qualitative characteristics and constraints of financial reporting. The IPSASB determines that these concepts should be refined and reduced in number. The IPSASB also directs that the next draft should include alternative approaches to presentation: an approach driven by user needs and an approach that discusses presentation more directly in relation to the qualitative characteristics and constraints, without using separate presentation concepts.

March 2011

The IPSASB considers a draft Consultation Paper on Presentation and provides directions on the meaning of presentation and the relationship between presentation, display and disclosure. The IPSASB also agrees to further develop presentation concepts and map these concepts to the qualitative characteristics and the constraints on information included in GPFRs.

The IPSASB approves an ED of *Key Characteristics of the Public Sector and their Impact on Financial Reporting*, subject to circulation to Members of a further revised version. The ED will have a 4 month consultation period.

December 2010

The IPSASB publishes the ED on Phase One and Consultation Papers on *Elements and Recognition*, and *Measurement* with exposure periods of six months ending on June 15, 2011. The IPSASB also publishes *At a Glance* summaries related to the Consultation Papers. A staff draft *Key Characteristics of the Public Sector* highlighting certain characteristics of the public sector that may have an impact on development of a conceptual framework for the public sector and therefore on accounting standard-setting in the public sector is also available. The document has not been approved by the IPSASB and therefore does not represent the views of the IPSASB. It will be further considered by the IPSASB in first quarter of 2011, with a view to approval for exposure for public comment.

November 2010

The IPSASB approves an ED on Phase One and Consultation Papers on Elements and Recognition, and Measurement with exposure periods of six months.

June 2010

The IPSASB considers a draft of Exposure Draft (ED) on Phase One subjects (Objectives, Scope, Qualitative Characteristics and Reporting Entity) and makes directions for revision so that a further version can be circulated out-of-session, with a view to approving an ED in November 2010. The IPSASB also considers further versions of draft Consultation Papers on Elements and Recognition, and Measurement and provides directions for further development. In accordance with directions at the April 2010 meeting the Consultation Paper on Measurement includes consideration of both assets and liabilities.

May/June 2010

The IPSASB establishes a Standard Setters Advisory Panel on the Conceptual Framework, which supersedes the Subcommittee.

April 2010

The IPSASB considered a revised project plan that reflected the priority accorded to the project by the IPSASB at its December 2009 meeting. The IPSASB further discussed issues arising from the analysis of responses to the first Consultation Paper. The IPSASB also discussed further issues papers on the Elements and Recognition phase and a draft Consultation Paper on the assets component of the Measurement phase, together with issues papers on the deprival value model in the context of liabilities and concepts of capital.

December 2009

The IPSASB continued its review of responses to the Phase 1 Consultation Paper. This review will continue at the IPSASBs next meeting in April 2010.

September 2009

The IPSASB continued its consideration of issues relating to Phase 3: Measurement. The IPSASB agreed that the next stage of development is to take a draft CP 3 to the Conceptual Framework Subcommittee.

May 2009

The IPSASB commenced its review of the [55 responses](#) to the Consultation Paper on Phase 1 of its Conceptual Framework project. The IPSASB will continue its review of the responses at meetings during 2009.

The IPSASB also considered a draft Consultation Paper on the definition and recognition of elements (phase 2) and a first paper on measurement (phase 3). The IPSASB will consider further papers on phases 2 and 3 at its September meeting.

March 2009

Comments on the Consultation Paper (see below) are due by March 31. The IPSASB will commence its review of comments at its next meeting in May 2009.

September 2008

The IPSASB approved and published for comment the [Consultation Paper](#) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting, The Scope of Financial Reporting, The Qualitative Characteristics of Information Included in General Purpose Financial Reports, The Reporting Entity*, with a comment date of March 31, 2009.

June 2008

The IPSASB reviewed an updated draft Consultation Paper dealing with 'objectives of general purpose financial reporting', 'scope of general purpose financial reporting', 'qualitative characteristics of financial information included in general purpose financial reports' and 'the reporting entity'. The IPSASB confirmed its preliminary views on the objectives and scope of financial reporting and agreed preliminary views that, in broad terms:

The qualitative characteristics of information included in general purpose financial reports (GPFRs) should be identified as relevance, faithful representation, timeliness, understandability, comparability and verifiability. Constraints on information included in GPFRs are materiality, cost and the appropriate balance between the characteristics;

- The key characteristic of a reporting entity is the existence of users dependent on GPFRs for accountability purposes and for making resource allocation, political and social decisions. A reporting entity may have a separate identity at law or be an organization, activity or administrative arrangement; and

The boundary of a group reporting entity should include the government (or other reporting entity) and other entities over which the government (or other reporting entity) has the power to direct the strategic financing and operating policies and, as a consequence, has access to, and can increase, maintain or protect, benefits from those entities or is exposed to a financial burden or loss by the other entities.

The IPSASB also tentatively agreed the text of the draft Consultation Paper subject to a final review of amendments and agreement on the executive summary and other introductory material out of session. The Consultation Paper is planned for publication in September.

The IPSASB also reviewed developments with the group 2 Consultation Paper which deals with the definition and recognition of elements.

The Board discussed some of the key aspects of the IASB/FASB conceptual framework project and in that context considered the need to change the existing IPSASB asset and liability definitions. As such, the IPSASB directed staff to explore the 'rights and obligations' approach being mindful of the type of rights a

government possesses (non-exchange) and the types of liabilities of a government (non-exchange). The Board expressed concern with taking a strictly 'legal' approach as well as focusing solely on enforceability noting that some environmental liabilities may be questionable using this approach.

While open to considering developments from the IASB/FASB project, the IPSASB also believed it was important to firstly review its existing definitions and consider general improvements that could be made. The Board also emphasized the importance of keeping any definitions at a high level and identifying public sector specific examples to illustrate the effects of any changes proposed.

A draft of the group 2 Consultation Paper is planned to be provided to the IPSASB for consideration before the next Board meeting in October 2008.

March 2008

The IPSASB performed a review of a first draft Consultation Paper which consolidates four previously separate chapters dealing with 'objectives of general purpose financial reporting', 'scope of general purpose financial reporting', 'qualitative characteristics of financial information included in general purpose financial reports' and 'the reporting entity'. Each chapter was discussed in detail with the IPSASB agreeing that the draft paper be restructured and refocused to identify a number of IPSASB preliminary views for further consideration in June 2008 - these included:

- The objectives of financial reporting be identified as the disclosure of information for accountability and decision making purposes;
- The scope of financial reporting should encompass the disclosure of financial information about past transactions and events such as presented in "conventional" financial statements, as well as non-financial information about the performance of the entity including its service delivery achievements, and prospective financial information consistent with the achievement of the objective of financial reporting - but would not encompass matters of policy formulation; and

A public sector reporting entity should be described as an entity that is required or elects to prepare a general purpose financial report (GPFR) in accordance with IPSASs. The IPSASB agreed the need to further explore whether the boundary of the reporting entity in the public sector should be determined on a control or an accountability basis, and issues that might arise in the application of those bases.

For qualitative characteristics, the IPSASB had significant discussion as to whether timeliness and understandability need special consideration in a public sector context. Related to this was 'if' and 'what' any 'order of application' should be applied to public sector qualitative characteristics.

The IPSASB directed that the draft Consultation Paper be revised for scheduled approval at their next meeting in June 2008.

November 2007

The IPSASB reviewed papers on 'objectives', 'scope of general purpose financial reporting', 'qualitative characteristics of financial information' and 'the reporting entity' prepared by national standards setters and IPSASB staff. They directed that a first draft of a Consultation Paper which consolidates all four papers be prepared for review at their next meeting in March 2008.

July 2007

The IPSASB reviewed draft consultation papers on "Objectives of financial reporting" and the "Scope of financial reporting" and provided directions for their further development. Final drafts of these papers are to be reviewed by the IPSASB at its November 2007 meeting, together with papers on the "Characteristics of the reporting entity" and "Qualitative characteristics of financial information".

The IPSASB agreed that other components of the project should be actioned as soon as possible with a view to accelerating the development process.

The subcommittee met and considered a revised paper dealing with the reporting entity. The paper is to be further developed for review, as discussed above, by the IPSASB in November 2007.

March 2007

The IPSASB noted progress and the current status of the project, including that initial issues papers on Objectives, Scope, Reporting Entity and Qualitative Characteristics had been prepared for review by the subcommittee.

The Board discussed the scope of the conceptual framework, differences between general purpose financial statements and general purpose financial reporting and the notion of a reporting entity. Members noted that the need to demonstrate accountability implied reporting beyond general purpose financial statements, and a range of factors would need to be considered in determining the reporting entity.

The subcommittee held its first meeting to confirm operating procedures and timing of project development and to review initial issues papers dealing with:

- Objectives of financial reporting: prepared by UK - ASB;
- Scope of financial reporting: prepared by South Africa-ASB;
- Qualitative Characteristics: prepared by Norway - Institute; and
- Reporting entity: prepared by Australia - AASB.

November 2006

The IPSASB formally approved the project brief, noting that:

- The project would be actioned with the expectation that CPs on the components of the Framework and then an exposure draft of the full Framework would be issued;
- The IPSASB Framework would deal with general purpose financial reports, and would not be limited to only general purpose financial statements;
- When the draft of the paper on objectives of financial reporting was developed, it would be used as the basis for "focus group discussions" and/or similar public hearings, to facilitate additional input on users and user needs; and
- The Framework under the accrual basis would initially be developed, and the implications for the cash basis of financial reporting considered towards the end of the project.

July 2006

The IPSASB met with representatives of national standards setters (NSS) from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America. Also participating were the Public Sector Committee of the Federation des Experts Comptables Europeens (FEE), the IASB, the Task Force on the Harmonization of the Public Sector Accounting (TFHPSA) and Eurostat. There was agreement the IPSASB would lead a collaborative project. A draft project brief and tentative development program was also agreed for formal approval in November 2006.