

International Federation of Accountants

IPSASB's Conceptual Framework An Overview

SACL Financial Reporting and Auditing Conference
A New Landscape

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Overall

- Very brief background to International Public Sector Accounting Standards Board (IPSASB)
- Conceptual Framework Project: Development Aspects
- Timetable of the project
- Coverage and Development Phases
- Some Key Points (including differences of substance and emphasis with IASB/FASB)

Very Brief Background to IPSASB

- Standards Program launched in 1996, currently 31 accrual based IPSASs (plus 1 cash basis IPSAS)
- Substantial Convergence with IFRS as at 31 December 2008
- Public sector specific topics include:
 - Revenue from non-exchange transactions
 - Impairment of non-cash-generating assets
 - Disclosure of information on General Government Sector
 - Presentation of budget information
- Implicit acceptance of IASB 1989 Framework supplemented by acknowledgement of public sector aspects such as ‘service potential’
- Process for Reviewing and Modifying IASB Documents

Conceptual Framework: Development Aspects (1)

- Launched in late 2006 as collaborative project with National Standards-Setters (NSS)
- Subcommittee of NSS and other interested bodies (e.g. IASB Staff, Finance Ministries with standards-setting powers) to oversee
- Key role of NSS in development of components:
 - **UK ASB: Objectives and Measurement**
 - **AASB: Reporting Entity**
 - **PSAB (Canada): Elements and Recognition**

Conceptual Framework: Development Aspects (2)

- First Consultation Paper covering Phase One topics issued: September 2008 with 6 month consultation
 - 55 responses. Generally supportive, main reservations expressed on Scope and identification of Primary Users
- Late 2009: decision to prioritize and accelerate timetable with aim to issue finalized Framework in early 2013
- Replacement of subcommittee with smaller more flexible Advisory Panel

Conceptual Framework: Development Aspects (3)

- Relationship with IASB/FASB Conceptual Framework
 - Initial project design and Phase One directly referencing to IASB/FASB project. However, IPSASB timetable is now more advanced in some areas e.g. Measurement
 - Standalone framework not an interpretation of either current IASB framework or IASB/FASB project
 - Some reservations from NSS especially in sector neutral jurisdictions
 - Compares approaches and preliminary views with those in IASB/FASB project
 - Collaboration with IASB Staff and IASB Member (Warren McGregor)
- Statistical accounting dimension (GFS)

Conceptual Framework Schedule 2010–2012

	Phase One: Objectives	Phase One: Qualitative Characteristics	Phase One: Scope	Phase One: Reporting Entity	Phase Two: Elements and Recognition	Phase Three: Measurement:	Phase Four: Presentation and Disclosure	Introduction on Public Sector
Apr 2010	RR	RR	RR	RR	DI	DI		
Jun 2010	ED <i>discuss</i>	ED <i>discuss</i>	ED <i>discuss</i>	ED <i>discuss</i>	CP <i>discuss</i>	CP <i>discuss</i>	DI	
Nov 2010	ED <i>approve issue</i>	ED <i>approve issue</i>	ED <i>approve issue</i>	ED <i>approve issue</i>	CP <i>approve issue</i>	CP <i>approve issue</i>	DI	<i>discuss</i> <i>approve & issue</i>
Mar 2011							CP <i>discuss</i>	
Jun 2011	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR	RR	CP <i>approve issue</i>	
Sep 2011	RR	RR	RR	RR	ED <i>discuss</i>	ED <i>discuss</i>		RR
Dec 2011	FC <i>review</i>	FC <i>review</i>	FC <i>review</i>	FC <i>review</i>	ED <i>approve</i>	ED <i>approve</i>		<i>Finalize & approve</i>
Mar 2012	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>			ED <i>discuss & approve</i>	
Jun 2012								
Sep 2012	CIA	CIA	CIA	CIA	RR	RR		
Dec 2012	<i>complete</i>	<i>complete</i>	<i>complete</i>	<i>complete</i>	FC <i>approve</i>	FC <i>approve</i>	RR FC <i>approve</i>	
First Half 2013	I	S	S	U	A	N	C	E
Second Half 2013								

Key: ED: Exposure Draft, DI: Discussion of Issues, RR: Review of Responses, FC: Final Chapter, CP: Consultation Paper, CIA: Consider Issues Arising from Other Phases of Project



Assumptions on Timetable

- Phase 1 ED to be issued immediately following approval
- Umbrella ED covering all components may be issued, but no firm decision
- Four month exposure for forthcoming Consultation Papers
- Schedule is tight and does not allow for major delays

Some Key Points: Objectives, Scope, QCs and Reporting Entity (1)

- Primary User Group: Service recipients and resource providers, including legislature as representative of interests of citizens rather than capital providers
- Objectives: Both accountability and decision-making
- Scope: Considerably broader than financial statements and includes:
 - Compliance with relevant legislation or regulation and legally adopted or approved budgets
 - Service delivery performance
 - Prospective financial information e.g., on long-term sustainability of public finances

Some Key Points: Objectives, Scope, QCs and Reporting Entity (2)

- Qualitative Characteristics (QCs)
 - Faithful representation
 - Relevance
 - Understandability
 - Timeliness
 - Comparability
 - Verifiability (including supportability)
- Materiality and cost as pervasive constraints
- No distinction between fundamental and enhancing characteristics
 - IASB/FASB have identified relevance and faithful representation as fundamental characteristics

Some Key Points: Objectives, Scope, QCs and Reporting Entity (3)

- Determination of Group Reporting Entity
 - the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
 - can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or to maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).
 - Does global financial crisis provide challenges to this approach-work of IMF-IPSASB Task Force?
 - Should notions of financial dependency play a role in determining reporting boundary in public sector?

Some Key Points: Elements (1)

- Elements phase considers & contrasts ‘asset and liability-led’ and ‘revenue and expense-led’ approaches to financial performance
 - deferred inflows and outflows as separate & additional elements as in US GASB Framework?
 - A+L proponents consider R+E approach subjective due to difficulty of attributing flows to accounting periods
 - R+E proponents consider that A+L approach does not provide relevant and representational faithful information reflecting public sector circumstances and inter-period equity

Some Key Points: Elements (2)

- Analysis of key possible characteristics of liabilities including:
 - Substance of liability
 - Obligations
 - Service potential as well as cash inflows
 - Unconditional rights
 - Determining whether asset of reporting entity
 - Control
 - Risks and rewards
 - Rights of access to benefits
 - Legal or other enforceable claim to benefits
 - Restriction or denial of access
 - Determination of whether asset at reporting date
 - Establishing existence at reporting date
 - Need for identification of past event/transaction

Some Key Points: Elements (3)

- Nature of ‘net assets/equity’
 - Including whether an ownership interest exists in public sector or is net assets/equity just a residual?
- Recognition
 - Measurement uncertainty
 - Existence uncertainty
 - Differential thresholds for derecognition?
 - Recognition and disclosure-disclosure no substitute for recognition where criteria are satisfied
 - Locating recognition criteria-should they be in definitions or separate?

Some Key Points: Measurement

- Discusses three measurement bases
 - Historical Cost
 - Market Value
 - Replacement Cost
- Deprival value as a model to select relevant measurement basis for assets : Replacement Cost and Recoverable Amount (Value in Use or Net Selling Price)
- Relief value model the counterpart for liabilities
- This approach differs from exit value approach that characterises emerging IASB/FASB thinking

Questions and Discussion



- Visit our webpage <http://www.ifac.org/PublicSector/>
- Or contact us by e-mail

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