



***The Conceptual Framework for General Purpose Financial Reporting
by Public Sector Entities***

IPSASB Basis for Conclusions – as per 2017 IPSASB Handbook

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Chapter 1 Role and Authority of the Conceptual Framework

Role and Authority of the Conceptual Framework

- BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSASs and RPGs intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. IPSASs and RPGs are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.
- BC1.2 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may also consolidate all governmental entities whether or not those entities have complied with IPSASs in their GPFRs.

Special Purpose Financial Reports

- BC1.3 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial Reports

- BC1.4 The Conceptual Framework acknowledges that, to respond to users’ information needs, GPFRs may include information that enhances, complements, and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. The following Chapter of this Framework Chapter 2, Objectives and Users of General Purpose Financial Reporting, identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users’ likely information needs for what may be encompassed within the scope of financial reporting.

Chapter 2 Objectives and Users of General Purpose Financial Reporting

Primary User Groups

- BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFRs. Many respondents to the initial Consultation Paper¹ expressed the view that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these views.

Identifying the Primary User Groups

- BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (the Exposure Draft) identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that, while the IPSASB will develop IPSASs and RPGs on the contents of GPFRs to respond to the information needs of these primary users, GPFRs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.
- BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

¹ 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*.

However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs. Some respondents also expressed the view that only resource providers and their representatives should be identified as the primary users of GPFRs of public sector entities. They explained that it is unlikely that GPFRs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- Governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and RPGs, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

Citizens

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs—focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with

resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

- BC2.9 As noted at paragraph BC2.4, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFRs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFRs, or that their information needs be identified as less important than those of service recipients.

The Legislature

- BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs as well as information provided by special purpose financial reports for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.
- BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

- BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.
- BC2.13 The information provided by GPFRs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of Financial Reporting

- BC2.14 Many respondents to the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector entities; other respondents advocated that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFRs of public sector entities will require information for both accountability and decision-making purposes.

BC2.15 Some respondents to the Exposure Draft advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added.

BC2.16 The explanation of accountability and its relationship to decision-making and GPFRs has also been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFRs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

The Scope of Financial Reporting—Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

BC2.17 Many respondents to the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics such as verifiability and comparability. Other respondents did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time; and
- Guidance on matters outside the financial statements, such as non-financial and prospective information, is appropriately a matter for individual governments, or governing bodies or other authority.
- Some respondents to the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Conceptual Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period; its compliance with approved budgets and legislation or other authority governing the raising and use of resources; and prospective financial and

non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFRs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the Scope of Financial Reporting

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in the Exposure Draft was too open ended and/or not adequately explained or justified—in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource Considerations, Authoritative Requirements and Audit Status

BC2.23 Many respondents, whether supportive or opposed to the proposals in the Exposure Draft, expressed concern that dealing with “broad scope” issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to the Exposure Draft also:

- Advocated that the Conceptual Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implications of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include RPGs and other documents intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to broad scope issues. However, information presented in financial statements remains at the core of financial reporting and, therefore, will remain the primary focus of the IPSASs and RPGs developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs and RPGs that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The qualitative characteristics provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the entity.

Chapter 3 Qualitative Characteristics

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In

making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.

- BC3.2 Some respondents to the Exposure Draft expressed concern about the application of the qualitative characteristics to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSASs and RPGs that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.
- BC3.3 IPSASs and RPGs issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or RPG that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.
- BC3.4 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.

Other Qualitative Characteristics Considered

- BC3.5 Some respondents to the Exposure Draft expressed the view that additional qualitative characteristics should be identified. Those qualitative characteristics included “sincerity,” “true and fair view,” “credibility,” “transparency,” and “regularity”.
- BC3.6 The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that sincerity, true and fair view, credibility, and transparency are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

- BC3.7 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed RPGs are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity's obligation to be accountable and to decisions that users may make.

Faithful Representation

- BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity's plant and equipment, including items that have

different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

- BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic or other phenomenon that it purports to represent.

Faithful Representation or Reliability

- BC3.10 At the time of issue of the Exposure Draft, Appendix A of IPSAS 1, *Presentation of Financial Statements* identified “reliability” as a qualitative characteristic. It described reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.
- BC3.11 Many respondents to the Exposure Draft supported the use of faithful representation and its explanation in the Exposure Draft, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.
- BC3.12 The use of the term “faithful representation”, or “reliability” for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, market value, fair value or another measurement basis. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement basis or bases reflected in GPFRs.
- BC3.13 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.
- BC3.14 In addition, the IPSASB has been advised that the term “reliability” is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB is of the view that use of the term “faithful representation” will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

- BC3.15 Some respondents to the Exposure Draft expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.
- BC3.16 The Conceptual Framework explains that “Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over

form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

- BC3.17 The IPSASB is of the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

Understandability

- BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.
- BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

Timeliness

- BC3.20 The IPSASB recognizes the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. Consequently, timeliness is identified as a qualitative characteristic in the Conceptual Framework.

Comparability

- BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.
- BC3.22 Some respondents to the Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.
- BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

- BC3.24 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate qualitative characteristic because information may

faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the qualitative characteristics to contribute to the usefulness of information presented in GPFRs—for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other qualitative characteristics to ensure it is presented in a timely fashion and is relevant.

- BC3.25 In developing the qualitative characteristics identified in the Framework, the IPSASB considered whether “supportability” should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the economic and other phenomena that they purport to represent.
- BC3.26 Some respondents to the Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Conceptual Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

Classification of the Qualitative Characteristics and Order of their Application

- BC3.27 Some respondents to the Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the International Accounting Standards Board.

- BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as “fundamental” may be perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFRs of public sector entities may encompass historical and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- BC3.29 At the time of issue of the Exposure Draft, Appendix A of IPSAS 1 described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.
- BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the entity.
- BC3.31 However, the IPSASB is of the view that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and RPGs. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.
- BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, it has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

Cost-Benefit

- BC3.33 Some respondents to the Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in Paragraph 1.2 of the Conceptual Framework, authoritative requirements relating to recognition, measurement, and presentation in GPFRs are specified in IPSASs. GPFRs are developed to provide information useful to users and requirements are prescribed by IPSASs only when the benefits to users of compliance with those requirements are assessed by the IPSASB to justify their costs. However, preparers may consider costs and benefits in, for example, determining whether to include in GPFRs disclosure of information in addition to that required by IPSASs.
- BC3.34 Some respondents to the Exposure Draft also expressed concern that the proposed Conceptual Framework did not recognize that cost-benefit trade-offs may differ for different public sector entities. They are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the

Conceptual Framework will not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

- BC3.35 In the process of developing an IPSAS or RPG, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

Chapter 4 Reporting Entity

Key Characteristics of a Reporting Entity

- BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes.
- BC4.2 Reporting entities prepare GPFRs. GPFRs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes.

Legislation, Regulation or Other Authority

- BC4.3 The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFRs. It noted that the public sector organizations and programs that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.
- BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFRs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

- BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the Exposure Draft may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFRs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the Exposure Draft applied to public sector organizations other than governments including, for example, international public sector organizations.
- BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:
- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; and
 - Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSASs respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity². Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

The Group Reporting Entity

BC4.8 The Exposure Draft outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities, and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity), or (b) expose it to a financial burden or loss.

BC4.9 Many respondents to the Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity were more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances, and supported with specific examples of the circumstances likely to exist in many jurisdictions.

BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity—whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

Chapter 5 Elements in General Purpose Financial Statements

Scope of Chapter

BC5.1 Respondents to the Consultation Paper, *Elements and Recognition in Financial Statements* (the Consultation Paper), questioned why the IPSASB was only addressing elements for the financial statements in this phase of the Framework. They suggested that IPSASB should also develop elements for economic and other phenomena in the more comprehensive areas of financial reporting outside the financial statements. The IPSASB acknowledges the merits of these views and the need to develop such elements in the future. However, the IPSASB decided that in order to put its future standard-setting activities for the financial statements on a sound and transparent footing it is important to deal firstly with the development of elements for the financial statements.

BC5.2 The IPSASB acknowledges a view that cash inflows and cash outflows should be defined as elements of the cash flow statement. The IPSASB took the view that cash inflows and cash outflows are components of the elements identified in this Chapter, and that further guidance should be provided at standards level.

² For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

Assets

A Resource

BC5.3 A resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits. In reaching its conclusions on the nature of a resource the IPSASB considered whether the benefits of the resource must have already flowed to an entity in order for a resource to exist. However, the IPSASB concluded that resources themselves embody benefits—benefits that can be accessed by the entity that controls the rights to these benefits. The IPSASB also considered the nature of the benefits (see paragraphs BC5.7 and BC5.8) and control (see paragraphs BC5.9-BC5.14).

Unconditional Rights and Executory Contracts

BC5.4 Unconditional rights to resources typically result from contracts or other binding arrangements that require provision of resources to the entity in the future. The IPSASB notes that there can be a large number of such rights and acknowledged that unconditional rights that represent service potential or the ability to generate economic benefits that are controlled by the entity as a result of a past event give rise to assets. Whether such assets are recognized depends on whether the recognition criteria have been satisfied. The IPSASB concluded that the consequences of application of the definition of an asset to unconditional rights should be addressed at standards level.

BC5.5 Executory contracts are binding arrangements where there is an unconditional right to receive resources and an equal present obligation to transfer resources to the counterparty in the future. Public sector entities are likely to engage in a large number of such arrangements. The IPSASB acknowledges the view that such arrangements may give rise to both assets and liabilities, as there is a right to receive resources and a present obligation to sacrifice resources, which the entity has no realistic alternative to avoid.

BC5.6 The IPSASB also acknowledges the view that recognizing assets and liabilities from executory contracts would involve the inclusion of potentially very large amounts of assets and liabilities in the statement of financial position and the statement of financial performance and that this may conflict with the qualitative characteristic of understandability. Whether assets and liabilities arise from rights and obligations in executory contracts will be determined by an assessment of whether those rights and obligations satisfy the definitions of elements and recognition criteria identified in the Conceptual Framework. Such assessments, and the approach to presentation in the financial statements of any elements arising from executory contracts, are considered at standards level.

Service Potential and Economic Benefits

BC5.7 The term “service potential” has been used to identify the capacity of an asset to provide services in accordance with an entity’s objectives. The term “economic benefits” has been used to reflect the ability of an asset to generate net cash inflows. Some argue that economic benefits includes service potential. Others argue that service potential includes economic benefits—a further view is that the terms can be used interchangeably. The IPSASB considered whether the explanation of a resource should include a reference to both service potential and the ability to generate economic benefits.

BC5.8 The IPSASB noted that many respondents to the Consultation Paper and Exposure Draft supported inclusion of a specific reference to service potential as a characteristic of an asset, because of the service delivery objectives of most public sector entities. The IPSASB therefore concluded that the explanation of a resource should include both the terms “service potential” and “economic benefits”. This approach acknowledges that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows.

Control

BC5.9 The IPSASB considered whether control is an essential characteristic of an asset or whether other indicators should be identified as essential characteristics of an asset including:

- Legal ownership;
- The right to access, and to restrict or deny the access of external parties to, the resource;
- The means to ensure that the resources are used to achieve the entity’s objectives; and
- The existence of enforceable rights to service potential or economic benefits arising from a resource.

The IPSASB acknowledges the views of those who argue that control may be difficult to apply in some cases because it requires judgment to assess whether control exists. In addition, control can be erroneously applied to a resource in its entirety and not to the individual benefits that accrue from the resource. However, notwithstanding such difficulties, the IPSASB concluded that control is an essential characteristic of an asset because the presence of control facilitates the association of an asset with a specific entity.

- BC5.10 Legal ownership of a resource, such as a property or item of equipment, is one method of accessing the service potential or economic benefits of an asset. However, rights to service potential or the ability to generate economic benefits may exist without legal ownership of the underlying resource. For example, the rights to service potential or the ability to generate economic benefits through the holding and use of leased property are accessed without legal ownership of the leased asset itself. Therefore, legal ownership of the resource is not an essential characteristic of an asset. Legal ownership is, however, an indicator of control.
- BC5.11 The right to access a resource may give an entity the ability to determine whether to:
- Directly use the resource's service potential to provide services to beneficiaries;
 - Exchange the resource for another asset, such as cash; or
 - Use the asset in any of the other ways that may provide services or generate economic benefits.
- BC5.12 While access to a resource is crucial, there are resources to which an entity has access which do not give rise to assets, such as air. Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource—for example, (a) an entity might decide whether to set an entrance fee to a museum and restrict access to those who do not pay the fee, and (b) government may control a natural resource under its land to which it can restrict the access of others. Legally enforceable claims to specific resources, such as a right of access to a road or a right to explore land for mineral deposits, could represent an asset to the holder. However, an entity may be able to access the service potential or ability to generate economic benefits associated with a resource in ways that do not require legal rights. The IPSASB took the view that the factors identified in paragraph BC5.9 are likely to be indicators of the existence of control rather than essential characteristics of the definition of an asset.
- BC5.13 The IPSASB also considered whether the economic ownership approach is a viable alternative to the control approach. The economic ownership approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity. Some respondents to the Exposure Draft, *Elements and Recognition in Financial Statements*, in supporting the control approach, commented on the complexity of the economic ownership approach. The IPSASB concluded that the economic ownership approach is subjective and difficult to operate, and therefore rejected this approach.
- BC5.14 The IPSASB considered whether an analysis of exposure to the risks and rewards of ownership is a useful indicator of control. The control approach focuses on the power of the entity to direct how the resource is used in order to benefit from the service potential and/or ability to generate economic benefits embodied in the resource. The risks and rewards approach focuses on an entity's exposure to the underlying economic attributes that contribute to an asset's value to the entity and the related risks. Consideration of the risks and rewards associated with particular transactions and events, and which party to any transaction or event bears the majority of those risks and rewards, may be relevant and useful in identifying the nature of the asset controlled by parties to the transaction or event. It may also be useful in determining how to quantify and associate the economic rights and obligations with particular parties. However, it is not of itself an indicator of the party that controls an asset. The IPSASB therefore decided not to include the risks and rewards of ownership as an indicator of control.

Past Event

- BC5.15 Some respondents to the Consultation Paper and Exposure Draft argued that identification of a past transaction or other event which gives rise to the asset should be an essential characteristic of the definition of an asset. Others take the view that the identification of a past event is not necessary and should not therefore be an essential characteristic. They consider that such a requirement places undue emphasis on identifying the past event that gave rise to an asset. Such emphasis may be a distraction and lead to debates about which event is the triggering event instead of the more important issue of whether rights to resources exist at the reporting date. Those who take this view consider that the essential

characteristic of an asset should be the existence of a resource. Some may accept that a past event provides useful supporting evidence of the existence of an asset, but not that it should be an essential characteristic.

- BC5.16 Many respondents took the view that a past event should be identified as an essential characteristic of the definition of an asset. The IPSASB agrees with these respondents—in particular, that the complex nature of many public sector programs and activities means that there are a number of points at which control of a resource might arise. Therefore, the IPSASB concluded that identification of the appropriate past event is crucial in identifying whether an asset exists.
- BC5.17 The powers and rights of government are particularly significant for the identification of assets. The power to tax and issue licenses, and other powers to access or to deny or restrict access to the benefits embodied in intangible resources like the electromagnetic spectrum, are examples of sovereign powers. It is often difficult to determine when such powers give rise to a right that is a resource and asset of the entity.
- BC5.18 A government’s power to establish a right to levy a tax or fee, for example, often begins a sequence of events that ultimately results in the flow of economic benefits to the government. The IPSASB considered two views of when an asset arises from the powers and rights of government to levy a tax or fee. The first view is that the government has an inherent power to tax at every reporting date and, therefore, that the general ability to levy taxes or fees is an asset. Proponents of this view accept that such an asset is unlikely to be capable of faithfully representative measurement, but argue that this should not deflect from an acknowledgement that government has a perpetual asset. The contrary view is that the power to levy taxes and fees must be converted into a right by legal means, and that such a right must be exercised or exercisable in order for an asset to come into existence. Many respondents to the Consultation Paper and Exposure Draft supported this latter view. The IPSASB agrees with these respondents. In particular, the IPSASB concluded that a government’s inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits.

Liabilities

A Present Obligation

- BC5.19 In considering when obligations are present obligations, the IPSASB accepts that a legal obligation gives rise to a present obligation. In some jurisdictions, public sector entities are not permitted to enter into certain legal arrangements, but there are equivalent mechanisms that give rise to a present obligation. Such mechanisms are considered legally binding. The IPSASB then considered how to classify obligations that are not legal obligations. The IPSASB noted that “constructive obligation” is a term embedded in standard-setting literature globally and has been used in IPSASs. However, it has proved difficult to interpret and apply in a public sector context. Therefore, the IPSASB considered alternative terminology, for example the term “a social or moral duty or requirement.” The IPSASB has concerns that the term “social” might be confused with political values and that the term “moral obligations” risks a perception that standard setters and preparers are arbiters of morality. Therefore, the IPSASB decided that making a distinction between “legally binding” and “non-legally binding obligations” is the most straightforward and understandable approach. The IPSASB considered and rejected the view that the term “non-legally binding obligations” might be interpreted as referring to obligations, the legality of which is questionable. Paragraphs BC5.30-BC5.34 discuss non- legally binding obligations and explain their meaning for the purposes of the Conceptual Framework.
- BC5.20 In the context of a present obligation, the IPSASB considered whether “conditional” and “unconditional” obligations, “stand-ready obligations” and “performance obligations” might be present obligations.

Conditional and Unconditional Obligations

- BC5.21 An unconditional obligation is one that stands on its own, independent of future events. Unconditional obligations give rise to liabilities if the definition of a liability is satisfied. A conditional obligation involves the possible occurrence of a future event, which may or may not be under the control of the reporting entity. The IPSASB concluded that it is possible for conditional obligations to give rise to liabilities as defined in the Conceptual Framework. Determining whether a conditional obligation satisfies the definition of a liability will involve consideration of the nature of the obligation and the circumstances in which it has arisen. Given the complexity of public sector programs and activities, identifying the past event (or events), which has (have) resulted in the entity having little or no realistic alternative to avoid an outflow of resources, often may not be straightforward. Guidance on whether conditional obligations

that exist in particular arrangements or circumstances may give rise to liabilities consistent with the definitions identified in the Conceptual Framework is a standards-level issue.

- BC5.22 A variety of terms are used to describe present obligations that may arise from, or exist in conjunction with, conditional obligations in particular circumstances. Amongst these are stand ready-obligations and performance obligations. The characteristics of these obligations and the conclusions reached by the IPSASB in the context of the Conceptual Framework are outlined below.

Stand-Ready Obligations

- BC5.23 Stand-ready obligations are a type of conditional obligation. Stand-ready obligations require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur). The term stand-ready obligation is used to describe a liability that may arise in certain contractual circumstances, such as those related to insurance, certain financial instruments such as a derivative contract in a loss position, and for warranties where the entity has an obligation to transfer resources if a specified future event occurs (or does not occur). In such circumstances, there may be an identifiable past event and an outflow of resources from the entity, although the exact identity of the party to whom settlement will be made will not generally be known.
- BC5.24 The Consultation Paper included a discussion of stand-ready obligations. Many respondents found the distinction between a stand-ready obligation and other conditional obligations ambiguous. The Exposure Draft explained that the term stand-ready obligation is not widely used in the public sector, and does not work well in certain public sector circumstances, and suggested that whether a stand-ready obligation gave rise to a liability is a standards-level issue. Some respondents did not agree with the explanation in the Exposure Draft, and expressed a view that the Conceptual Framework should provide guidance for use at the standards level on whether stand-ready obligations can give rise to liabilities in certain circumstances.
- BC5.25 A public sector entity's obligation to transfer resources to another entity in particular circumstances that may occur in the future includes, for example, as a potential lender of last resort and in support of programs that provide a wide range of social benefits. The existence of an obligation to transfer resources to another party in these circumstances may be dependent on ongoing satisfaction of a number of conditions of differing significance and nature that are subject to change by the government or public sector entity. The IPSASB is of the view that the circumstances in which liabilities arise as a consequence of the obligation of a public sector entity to transfer resources to other parties consistent with the terms of programs, and how such liabilities should be described and accounted for, should be considered at the standards level consistent with the principles established in the Conceptual Framework. The IPSASB decided that the Conceptual Framework should not resolve whether all obligations that might be classified as stand-ready meet the definition of a liability. The IPSASB also decided not to use the term "stand-ready obligation" in the Conceptual Framework.

Performance Obligations

- BC5.26 A performance obligation is an obligation in a contract or other binding arrangement between an entity and an external party to transfer a resource to that other party. Performance obligations are often explicitly stated in a contract or other arrangement. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation of a public sector entity that is additional to the terms of an agreement or contract.
- BC5.27 A performance obligation also arises when an entity enters into an arrangement whereby it receives a fee and, in return, provides an external party with access to an asset of the government. The IPSASB concluded that it is not necessary to identify a specific external party for a performance obligation to arise, but it is important to analyze such obligations in order to determine whether they include a requirement to provide an outflow of resources. Obligations that require an entity to provide access to a resource, but do not entail an outflow of resources do not give rise to liabilities. However, obligations that require an entity to forgo future resources may be liabilities. Performance obligations are often conditional obligations. Determining whether such obligations give rise to liabilities is dependent upon the terms of particular binding agreements and may vary between jurisdictions. The IPSASB concluded that the circumstances under which performance obligations give rise to liabilities should be considered at standards level.

Past Event

BC5.28 The IPSASB considered whether the definition of a liability should require the existence of a past transaction or other event. Some take the view that identification of a past event is not an essential characteristic of a liability, and that, consequently, there is no need for the definition of a liability to include a reference to a past event. These commentators argue that there may be many possible past events and that establishing the key past event is likely to be arbitrary. They suggest that the identification of a past event is not a primary factor in determining whether a liability exists at the reporting date. This view mirrors the opposition to the inclusion of a past event in the definition of an asset, which is discussed in paragraphs BC5.15-BC5.18.

BC5.29 The IPSASB acknowledges this view, but also noted that many respondents to the Consultation Paper and Exposure Draft consider that a past event is a characteristic of a liability. The IPSASB agrees with the view that the complexity of many public sector programs and activities and the number of potential points at which a present obligation might arise means that, although challenging, identification of the past event that gives rise to a liability is critical in determining when public sector liabilities should be recognized.

Little or No Realistic Alternative to Avoid

BC5.30 Some respondents to the Exposure Draft expressed concerns that the phrase “little or no realistic alternative to avoid” in the description of a present obligation is open to different interpretations. They proposed removal of the words “little or” from this phrase in order to reduce the potential for misinterpretation. The IPSASB considered this proposal. The IPSASB was concerned that such a change might be interpreted as establishing a threshold test of virtual certainty in determining whether a present obligation exists. The IPSASB considers such a threshold too high. Consequently, the IPSASB confirmed that a present obligation is a legally binding or non-legally binding requirement that an entity has little or no realistic alternative to avoid.

BC5.31 Determining when a present obligation arises in a public sector context is complex and, in some cases, might be considered arbitrary. This is particularly so when considering whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. In the context of programs to deliver social benefits there are a number of stages at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and also over time within the same jurisdiction—for example, different age cohorts may have different expectations about the likelihood of receiving benefits under a social assistance program. Assessing whether a government cannot ignore such expectations and therefore has little or no realistic alternative to transfer resources may be subjective. This gives rise to concerns that such subjectivity undermines consistency in the reporting of liabilities, and can also impact adversely on understandability. Some therefore take the view that an essential characteristic of a liability should be that it is enforceable at the reporting date by legal or equivalent means.

BC5.32 A converse view is that where a government has a record of honoring obligations, failing to recognize them as liabilities leads to an overstatement of that government’s net financial position. According to this view, if a government has a consistent record of raising citizen expectations through publicly-announced obligations to provide financial support—for example to the victims of natural disasters—and has met such obligations in the past, a failure to treat such obligations as liabilities is not in accordance with the objectives of financial reporting, and leads to the provision of information that does not meet the qualitative characteristics of faithful representation and relevance.

BC5.33 On balance, the IPSASB agrees with those who argue that, in the public sector, liabilities can arise from binding obligations that the entity has little or no realistic alternative to avoid, even if they are not enforceable in law. The IPSASB decided to use the term “non-legally binding obligations” for such obligations in the Conceptual Framework. However, the IPSASB acknowledges the views of those who are skeptical that liabilities can arise from obligations that are not legally enforceable. Consequently, paragraph 5.23 of this Chapter identifies the attributes that a non-legally binding obligation is to possess for it to give rise to a liability.

BC5.34 The wide variation in the nature of public sector programs and operations, and the different political and economic circumstances of jurisdictions globally, means that categorical assertions of the circumstances under which obligations not enforceable in law become binding and give rise to present obligations are inappropriate. However, the IPSASB is of the view that present obligations are extremely unlikely to

arise from election pledges. This is because electoral pledges will very rarely, (a) create a valid expectation on the part of external parties that the entity will honor the pledge, and (b) create an obligation which the entity has no realistic alternative but to settle. Therefore the Framework includes a presumption that liabilities do not arise from electoral pledges. However, it is accepted that in practice a government with a large majority will be better placed to enact intended legislation than a minority government, and that there may be infrequent circumstances where a government announcement in such circumstances might give rise to a liability. In assessing whether, in these circumstances, a non-legally binding obligation gives rise to a liability the availability of funding to settle the obligation may be an indicator. This is discussed in paragraph 5.25.

Sovereign Power to Avoid Obligations

BC5.35 The sovereign power to make, amend and repeal legal provisions is a key characteristic of governments. Sovereign power potentially allows governments to repudiate obligations arising from both exchange and non-exchange transactions. Although in a global environment such a power may be constrained by practical considerations, there are a large number of examples of governments defaulting on financial obligations over the last century. The IPSASB considered the impact of sovereign power on the definition of a liability. The IPSASB concluded that failing to recognize obligations that otherwise meet the definition of a liability on the grounds that sovereign power enables a government to walk away from such obligations would be contrary to the objectives of financial reporting and, in particular, may conflict with the qualitative characteristics of relevance and faithful representation. Many respondents to the Consultation Paper and the Exposure Draft supported this position. The IPSASB therefore concluded that the determination of the existence of a liability should be by reference to the legal position at the reporting date.

Commitments

BC5.36 Commitment accounting procedures are a central component of budgetary control for public sector entities in many jurisdictions. They are intended to assure that budgetary funds are available to meet the government's or other public sector entity's responsibility for a possible future liability, including intended or outstanding purchase orders and contracts, or where the conditions for future transfers of funds have not yet been satisfied. Commitments which satisfy the definition of a liability and the recognition criteria are recognized in financial statements, in other cases information about them may be communicated in notes to the financial statements or other reports included in GPFRs. The IPSASB concluded that commitment accounting might be addressed in the future when dealing with elements for the more comprehensive areas of general purpose financial reporting outside the financial statements.

Net Financial Position, Other Resources and Other Obligations

BC5.37 This section of the Basis for Conclusions outlines the IPSASB's approach to models of financial performance to be reported in the financial statements, and specifically the treatment of deferred inflows and deferred outflows.

Consultation Paper, Elements and Recognition in Financial Statements

BC5.38 The Consultation Paper discussed two contrasting approaches to financial performance:

- An approach that measures financial performance as the net result of all changes in the entity's resources and obligations during the period. This was described as the asset and liability-led approach; and
- An approach that measures financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period. This was described as the revenue and expense-led approach.

BC5.39 The Consultation Paper noted that the two different approaches could lead to different definitions of the elements related to financial performance and financial position. The revenue and expense-led approach is strongly linked to the notion of inter-period equity. Inter-period equity refers to the extent to which the cost of programs and providing services in the reporting period is borne by current taxpayers and current resource providers. The asset and liability-led approach is linked to the notion of changes in resources available to provide services in the future and claims on these resources as a result of period activity.

BC5.40 A further section of the Consultation Paper discussed Other Potential Elements and pointed out that, if IPSASB adopted the revenue and expense-led approach, IPSASB would need to address deferred flows. Under this approach, deferred flows are items that do not meet the proposed definitions of revenue and expense, but which are nevertheless considered to affect the financial performance of the period. The Consultation Paper identified three options for dealing with such flows:

- Defining deferred inflows and deferred outflow as elements on the statement of financial position;
- Broadening the asset and liability definitions to include items that are deferrals; or
- Describing deferred flows as sub-classifications of net assets/net liabilities (subsequently referred to as the residual amount).

BC5.41 The Consultation Paper had two specific matters for comment on these areas. The first asked constituents to indicate whether they preferred the asset and liability-led approach or revenue and expense-led approach and to indicate their reasons. The second asked whether deferred inflows and deferred outflows need to be identified on the statement of financial position. If respondents supported identification on the statement of financial position they were asked to indicate which of the three approaches in paragraph BC5.40 they supported.

BC5.42 The responses to these specific matters for comment were inconclusive. A small majority of respondents expressing a view favored the asset and liability-led approach. However, a number of respondents who supported the asset and liability-led approach also indicated that they favored identifying deferrals on the statement of financial position. The IPSASB took these views into account at Exposure Draft stage.

Exposure Draft, Elements and Recognition in Financial Statements

BC5.43 The Exposure Draft expressed a view that it is important to be able to distinguish flows that relate to the current reporting period from those that relate to specified future reporting periods. The Exposure Draft therefore proposed the following definitions of a deferred inflow and a deferred outflow:

- *A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets; and*
- *A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.*

BC5.44 The two key features of these definitions were:

- The proposed elements were restricted to non-exchange transactions; and
- The flows had to be related to a specified future period.

BC5.45 The IPSASB's rationale for including these characteristics were as risk-avoidance measures to reduce the possibility of deferred inflows and deferred outflows being used widely as smoothing devices, and to ensure that deferred inflows and deferred outflows are not presented on the statement of financial position indefinitely. The Exposure Draft included two Alternative Views. The first Alternative View considered the meaning of net financial position to be unclear in light of the combined impact of deferred inflows and deferred outflows. The second Alternative View disagreed with the view that deferred inflows and deferred outflows should be identified and recognized as separate elements and expressed a view that these flows meet the definitions of revenue and expense.

BC5.46 Many respondents disagreed with defining deferred inflows and deferred outflows as elements. Some expressed reservations about the implications for alignment with the International Accounting Standards Board's Conceptual Framework, and International Financial Reporting Standards more generally. A number of respondents considered that the proposed approach did not reflect economic reality and that it would be more difficult to determine an objective basis for deferring revenue and expense under the revenue and expense-led approach. Nevertheless, a number of respondents also expressed the view that information on flows relating to particular reporting periods has information value.

BC5.47 The rationale for restricting the definitions to non-exchange transactions was challenged as conceptually weak both by respondents who favored defining deferred inflows and deferred outflows as elements and those opposed to these proposed elements. Respondents also disagreed with the restriction to specified

time periods, because it would potentially lead to the different accounting treatment of very similar transactions dependent upon whether a specific period was identified—a grant without conditions receivable by an entity to finance its general activities for a five year period would have met the definition of a deferred inflow, whereas a similar grant for a future unspecified period would have met the definition of revenue.

Finalizing the Elements Chapter

BC5.48 The IPSASB considered that it needed to balance the limited support for the proposals on deferred flows in the Exposure Draft, and the perceived needs of users for information about flows relating to particular reporting periods.

BC5.49 The IPSASB therefore considered five options (A–E below) in responding to input from the due process and its perception of users’ information needs:

- A. Defining deferred inflows and deferred outflows as elements in a more principles-based manner and not specifying the financial statements in which the elements are to be recognized. As such, the Conceptual Framework would not predetermine the presentation of the elements;
- B. Deriving the definitions of revenue and expense from the asset and liability definitions;
- C. Broadening the asset and liability definitions;
- D. Accepting that certain economic phenomena that do not meet the definition of any element may need to be recognized in financial statements in order to meet the objectives of financial reporting; and
- E. Reporting inflows and outflows that provide service potential or economic benefits, but do not affect assets and liabilities as defined in the Framework and reporting inflows and outflows that do not affect revenue and expense.

BC5.50 The IPSASB does not consider that defining deferred inflows and deferred outflows as elements in Option A is justified in light of the objections that respondents had made to the proposals in the Exposure Draft. The IPSASB therefore rejected Option A.

BC5.51 The IPSASB considered two variants of Option B. 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 and then recycled to surplus/deficit in the period that time stipulations occur.

BC5.52 The IPSASB considers that taking deferred flows directly to surplus/deficit under the first variant of Option B may not produce information that is representationally faithful of an entity’s sustainable performance and therefore does not meet the objectives of financial reporting. The second variant of Option B relies on recycling and, in the view of some IPSASB members would have implicitly introduced the notion of “other comprehensive income” into the Framework. The IPSASB has strong reservations about such a development. For these reasons the IPSASB rejected Option B.

BC5.53 The IPSASB noted that Option C would require changes to the definitions of an asset and a liability so that:

- The definition of an asset would include resources that an entity does not control; and
- The definition of a liability would include obligations that are not present obligations.

The IPSASB considers that such changes would distort the essential characteristic of an asset—that an entity controls rights to resources—and the essential characteristic of a liability—that an entity has a present obligation for an outflow of resources. In the view of the IPSASB this would make assets and liabilities less easily understandable. Adoption of such an option would also be a departure from globally understood definitions of an asset and a liability. For these reasons the IPSASB rejected Option C.

BC5.54 Option E was a hybrid approach that involved components of the other four options. It would allow reporting of inflows and outflows that provide service potential or economic benefits, but would not affect the definitions of an asset and liability and the reporting of inflows and outflows that do not affect revenue and expense as defined in the Framework. The idea of this approach was to acknowledge that further conceptual thinking on financial performance is necessary.

BC5.55 Option D is broader than Option E because it is not necessarily restricted to deferred flows, but could encompass broader economic phenomena—for example obligations that are not present obligations, because, although they contain performance obligations, it is not clear that they require an outflow of resources. Option D acknowledges that there may be circumstances under which the six elements defined in the Conceptual Framework may not provide all the information in the financial statements that is necessary to meet users’ needs. In the view of the IPSASB it is transparent to acknowledge that other items may be recognized. Unlike Option A, Option D does not involve defining additional elements, and, unlike Option C, Option D does not involve modification of generally understood definitions of an asset and a liability.

BC5.56 The IPSASB concluded that Option D provides the most transparent approach. The terms “other obligations” and “other resources” are used to describe these economic phenomena in the Conceptual Framework. Option D also enhances the accountability of the IPSASB because the circumstances under which other obligations and other resources will be recognized will be determined at standards level and explained in the Bases for Conclusions of specific standards.

Financial Statements

BC5.57 Net financial position is the aggregate of an entity’s net assets (assets minus liabilities) and other resources and other obligations recognized in the statement of financial position at the reporting date. Where resources and obligations other than those that meet the definition of the elements are recognized in the financial statements, the amounts reported as net assets and net financial position will differ. In these circumstances, the interpretation of net financial position will be determined by reference to the nature of the other resources and other obligations recognized in the financial statements under the relevant IPSAS.

BC5.58 The IPSASB considered whether it should use both the terms “net assets” and “net financial position” in the Conceptual Framework. The IPSASB acknowledges a view that net assets is a generally understood term. However, the IPSASB considered that using both terms could be confusing and therefore decided to use the term “net financial position” to indicate the residual amount of an entity.

Revenue and Expense

Gross or Net Increase in “Net Financial Position” in Definition of Revenue

BC5.59 The IPSASB considered whether the definition of revenue should specify that the increase in net financial position is “gross” or “net”. The IPSASB acknowledges that a gross approach might not be appropriate in areas such as the disposal of property, plant, and equipment where such an approach would require the full disposal proceeds to be recognized as revenue, rather than the difference between the disposal proceeds and the carrying amount. Conversely, a net approach might be similarly inappropriate in certain circumstances—for example, the sale of inventory. The IPSASB concluded that whether the increase in net financial position represented by revenue is presented gross or net should be determined at standards level, dependent on which treatment better meets the objectives of financial reporting.

Distinguishing Ordinary Activities from Activities outside the Ordinary Course of Operations

BC5.60 Some standard setters structure their definitions of elements so that, for example, inflows and outflows arising from transactions and events relating to activities in the ordinary course of operations are distinguished from inflows and outflows that relate to activities outside the ordinary course of operations. An example of this approach is to define revenue and expense as elements that relate to an entity’s “ongoing major or central operations”, and to define gains and losses as elements that relate to all other transactions, events and circumstances giving rise to increases or decreases in net assets.³

BC5.61 The IPSASB acknowledges that distinguishing transactions and events related to the ordinary course of operations from transactions and events outside the ordinary course of operations can provide useful information for users of the financial statements. Therefore, it may be useful to adopt the terms “gains and losses” to reflect inflows and outflows from transactions and events outside the ordinary course of operations. However, the IPSASB is of the view that, conceptually, gains and losses do not differ from other forms of revenue and expense, because they both involve net increases or decreases of assets and/or

³ See, for example, Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*.

liabilities. The IPSASB also noted that many respondents to the Consultation Paper and Exposure Draft shared this view. Therefore the IPSASB decided not to define gains and losses as separate elements.

Ownership Interests in the Public Sector

BC5.62 As discussed in more detail in BC5.66-BC5.70, the IPSASB considered whether, and, if so, under what circumstances, ownership interests exist in the public sector and whether transactions related to ownership interests should be excluded from the definitions of revenue and expense. Because transactions with owners, in their role as owners, are different in substance to other inflows and outflows of resources the IPSASB concluded that it is necessary to distinguish flows relating to owners from revenue and expense. Therefore ownership contributions and ownership distributions are defined as elements and excluded from the definitions of revenue and expense.

Surplus or Deficit in the Reporting Period

BC5.63 This chapter states that the difference between revenue and expense is the entity's surplus or deficit for the period. The IPSASB considered whether it should provide explanatory guidance on the interpretation of surplus or deficit. The IPSASB discussed a view that public sector entities have operating and funding models. According to this view a surplus provides an indicator of the ability of the entity to:

- Reduce demands for resources from resource providers;
- Increase either the volume and/or quality of services to recipients;
- Reduce debt (where an entity has debt-raising powers); or
- A combination of these factors.

BC5.64 Conversely a deficit provides an indicator of:

- The need to increase demands on resources from resource providers;
- Reduce either the volume and/or quality of services to recipients;
- Increase debt (where an entity has debt-raising powers); or
- A combination of these factors.

BC5.65 The IPSASB acknowledges that there is a need for greater clarity on the meaning of surplus or deficit in the public sector, and therefore that aspects of the above approach might be developed further in the future. However, the IPSASB considered the concept of an operating and funding model or business model is not well developed in the public sector, and that developing an operating and funding model appropriate for all public sector entities is problematic. Therefore, the IPSASB decided not to include guidance on the interpretation of surplus or deficit in the Conceptual Framework.

Ownership Contributions, and Ownership Distributions

BC5.66 The IPSASB considered whether net financial position is a residual amount, a residual interest or an ownership interest. The IPSASB acknowledges the view that the interest of resource providers and service recipients in the long-term efficiency of the entity, its capacity to deliver services in the future and in the resources that may be available for redirection, restructuring or alternative disposition is similar to an ownership interest. The IPSASB also accepts that the terms "residual interest" and "ownership interest" have been used in some jurisdictions to characterize third parties' interests in net assets. The term "residual interest" indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations. The term "ownership interest" is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some supporters of this approach argue that it emphasizes the democratic accountability of governments.

BC5.67 The IPSASB is of the view that the term "residual interest" may also suggest that service recipients and resource providers have a financial interest in the public sector entity. Similarly the term "ownership interest" may suggest that citizens are entitled to distributions from the public sector entity and to distributions of resources in the event of the entity being wound up. The IPSASB therefore concluded that the terms "residual interest" and "ownership interest" can be misunderstood or misinterpreted, and that net financial position is a residual amount that should not be defined.

BC5.68 However, the IPSASB acknowledges that part of net financial position can in certain circumstances be an ownership interest. Such instances may be evidenced by the entity having a formal equity structure. However, there may be instances where an entity is established without a formal equity structure, with a view to sale for operation as a commercial enterprise or by a private sector not-for-profit entity. An ownership interest can also arise from the restructuring of government or public sector entities, such as when a new government department is created. The IPSASB therefore considered whether ownership interests should be defined as an element. The IPSASB acknowledges the view that identifying the resources (or claims on future resources) attributable to owners provides information useful for accountability and decision-making purposes. The IPSASB concluded that such interests can be identified through the sub-classification of net financial position. However, the IPSASB also concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expense, other resources and other obligations. Therefore, ownership contributions and ownership distributions are defined as elements. Detailed guidance to support the assessment of whether certain inflows and outflows of resources satisfy the definitions of ownership contributions and ownership distributions will be developed at standards level, as appropriate.

Chapter 6 Recognition in Financial Statements

Recognition and its Relationship to the Definition of the Elements

- BC6.1 The IPSASB considered whether recognition criteria should be integrated in definitions of the elements. The IPSASB acknowledges the view that the inclusion of recognition criteria in definitions of the elements enables preparers to consider all the factors that must be taken into account in evaluating whether an item of information is recognized as an element in the financial statements. However, the IPSASB is of the view that while there is overlap in factors to be considered in determining whether an item satisfies the definition of an element and whether that element qualifies for recognition, recognition should be considered as a distinct stage in the financial reporting process. This is because recognition is broader than whether the definition of an element is satisfied. The IPSASB also noted that few respondents to the Consultation Paper and Exposure Draft supported the integration of recognition criteria in element definitions. After considering the input from the due process, the IPSASB concluded that the definitions of elements should not include recognition criteria.
- BC6.2 In determining whether an element should be recognized there are two types of uncertainty that need to be considered. The first is uncertainty about whether the definition of an element has been satisfied. The second is measurement uncertainty—whether the element can be measured in a manner that achieves the qualitative characteristics. Measurement uncertainty is considered if it is determined that the definition of an element has been met. While recognition is viewed as a distinct stage in the accounting process, matters relevant to an assessment of uncertainty over the existence of an element will have been considered in determining whether the item satisfies the definition of an element.

Satisfying the Definition of an Element

- BC6.3 The IPSASB considered whether, in dealing with uncertainty over the existence of an element, standardized probability threshold criteria should be adopted, or whether all available evidence should be used to make neutral judgements about an element's existence.
- BC6.4 Standardized evidence thresholds filter out items that have a low probability of resulting in an inflow or outflow of service potential or the ability to generate economic benefits. Such items may have high monetary values, even though the probability of existence may be low. Some consider that it is more appropriate to disclose such items rather than to recognize them. Threshold criteria are also justified on cost grounds, because only after a preparer has formed an initial judgement about whether those threshold criteria have been met does that preparer consider how that element should be measured.
- BC6.5 The IPSASB formed a view that the adoption of thresholds for recognition purposes risks omitting information that is relevant and faithfully representative, because similar information items may be treated in different ways dependent upon relatively small differences in the probability of a flow of benefits. The IPSASB acknowledges that such risks can also exist for approaches which do not specify thresholds for recognition. This is because preparers will make their own assessments of the circumstances or "the threshold" that justifies recognition, and those assessments can change for different items and over time. However, the IPSASB concluded that, on balance, an approach that is based on an assessment of all available evidence in determining whether an element exists and takes account of uncertainty about the flows of service potential or the ability to generate economic benefits in

measurement is a more appropriate response to the uncertainty faced by preparers of financial statements. It is more likely to result in the recognition of information that satisfies the qualitative characteristics than the establishment of an arbitrary threshold that must be adhered to. Guidance may be provided at standards level on dealing with circumstances in which there is significant uncertainty about whether an element exists in particular circumstances, and therefore whether it would satisfy the criteria for recognition.

- BC6.6 The IPSASB explored whether uncertainty about the existence of an element is specific to certain characteristics of assets and liabilities—in particular for assets whether an entity controls rights to a resource and for liabilities whether an entity has little or no realistic alternative to avoid an outflow of service potential or economic benefits. The rationale for such a view is that these are the essential characteristics of an asset and a liability where uncertainty is likely to arise.
- BC6.7 The IPSASB is of the view that, uncertainty relates to more than just these characteristics. There might also be uncertainty about the existence of a present obligation and a past event for liabilities and, for assets whether a resource that generates future economic benefits or service potential presently exists, rather than a future resource or future right to a resource. As noted in paragraph BC6.2, these matters will also have been considered in determining whether an item satisfies the definition of an element.

Derecognition

- BC6.8 The IPSASB considered whether the same criteria should be used for initial recognition and derecognition. Many of the respondents to the Consultation Paper and the Exposure Draft supported the use of the same criteria for derecognition as for initial recognition. The IPSASB concluded that adopting different recognition criteria would conflict with the qualitative characteristic of consistency as it would result in the recognition of items with different standards of evidence for their existence. Therefore, the same recognition criteria should be used for initial recognition and derecognition.

Chapter 7 Measurement of Assets and Liabilities in Financial Statements

The Role of Measurement in the Conceptual Framework

- BC7.1 The IPSASB decided that the initial focus of the Conceptual Framework should be on measurement of the elements for the financial statements in order to put future standard setting activities for the financial statements on a sound and transparent footing. While a few respondents to the Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* (the Consultation Paper), questioned this approach, the IPSASB considered that the original rationale for restricting the scope of this phase was sound and reaffirmed it.

The Objective of Measurement

- BC7.2 The IPSASB considered whether a specific measurement objective should be developed. The IPSASB initially took the view that a separate measurement objective was unnecessary, because a measurement objective might compete with, rather than complement, the objectives of financial reporting and the qualitative characteristics. Accordingly, Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements* (the Exposure Draft), proposed factors relevant to the selection of a measurement basis consistent with the objectives of financial reporting and the qualitative characteristics, but did not include a measurement objective.
- BC7.3 Consistent with this approach the Exposure Draft proposed that the Conceptual Framework would not seek to identify a single measurement basis (or combination of bases) for all circumstances. The IPSASB acknowledged that proposing a single measurement basis to be used in all circumstances would clarify the relationship between different amounts reported in the financial statements—in particular, it would allow the amounts of different assets and liabilities to be aggregated to provide meaningful totals. However, the IPSASB is of the view that there is no single measurement basis that will maximize the extent to which financial statements meet the objectives of financial reporting and achieve the qualitative characteristics.
- BC7.4 The Exposure Draft included an Alternative View which proposed a measurement objective on the grounds that a Conceptual Framework that does not connect the objective of measurement with the objectives of financial reporting is incomplete and would limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time. Further, in the absence of a measurement objective, the Alternative View considered that there is a risk that different

and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities. The Alternative View proposed the following measurement objective:

To select those measurement attributes 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.

- BC7.5 Many respondents, while generally in favor of the approach in the Exposure Draft, supported the Alternative View. The IPSASB also acknowledges the view that the Conceptual Framework's approach to measurement should be aspirational and that the Conceptual Framework should identify a single measurement basis underpinned by an ideal concept of capital⁴. The IPSASB accepts that the operating capability concept is relevant and could be developed for public sector entities with a primary objective of delivering services. However, adoption of such a measurement objective involves a virtually explicit acknowledgement that current cost measures are superior to historical cost measures in representing operational capacity when financial position is reported. For the reasons discussed in paragraphs BC7.15-BC7.19, the IPSASB considers that historical cost measures often meet the measurement objective and therefore should be given appropriate emphasis in the Conceptual Framework.
- BC7.6 Subsequently the IPSASB was persuaded by the views of those who argue that a measurement objective is necessary in order to guide standard-level decisions on the selection of measurement bases. However, the IPSASB notes that assets and liabilities contribute to the financial performance and financial position of entities in different ways and that such an assessment should be based on the extent to which they contribute to financial capacity and operational capacity. The IPSASB concluded that linking a measurement basis to an ideal concept of capital might unduly restrict the choice of measurement bases. The IPSASB therefore rejected the view that adoption of measurement objective should be based on an ideal concept of capital and reaffirmed its view that a mixed measurement approach is appropriate for standard-setting in the public sector.
- BC7.7 The IPSASB considered whether the measurement objective proposed in the Alternative View was appropriate. Some argued that the proposed measurement objective was too aligned to current value measures. However the IPSASB formed a view that the reference to "cost of services" provides a sufficient link to historical cost, because the cost of services can be determined using both historical cost and current value measures. The IPSASB therefore adopted the following measurement objective with only a minor modification from that proposed in the Alternative View:
- To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*
- BC7.8 The IPSASB also notes that the disadvantages of using different measurement bases may be minimized by:
- Selecting different measurement bases only where this is justified by economic circumstances, thereby ensuring that assets and liabilities are reported on the same basis where circumstances are similar; and
 - Requiring transparent presentation and disclosure to ensure that the measurement bases used and the amounts reported on each basis are clear.

Initial and Subsequent Measurement

- BC7.9 A measurement basis needs to be selected both when an asset or liability is recognized for the first time—initial measurement— and when it is reported in the financial statements of a later period—subsequent measurement. Some accounting policies are expressed in a way that may suggest that different principles apply to initial and subsequent measurement. For example, an asset may initially be recognized at transaction price and subsequently at a current value. The IPSASB therefore considered whether the Conceptual Framework should discuss initial and subsequent measurement separately.
- BC7.10 One reason why different measurement bases may be specified for initial and subsequent measurement is that the basis to be used for subsequent measurement is not available at the time of initial measurement. This is particularly common in the public sector where assets are sometimes contributed, or provided on

⁴ Such concepts of capital include invested money capital, current cash equivalents and operating capability.

subsidized terms, or in exchange for other non-cash assets. In such a case the value of the transaction may be unknown, and if the asset is to be subsequently accounted for at an entry value such as historical cost or replacement cost, another basis has to be specified for initial measurement as a surrogate for the amount at which the asset would be stated if purchased on arm's-length terms. Surrogates may also be required for the initial measurement of assets acquired before the introduction of accrual accounting where the transaction price is not known. The use of surrogates that meet the measurement objective and the qualitative characteristics is an application of a measurement basis rather than a departure from it.

BC7.11 Another reason for an apparent difference in initial and subsequent measurement arises where an asset is to be accounted for at a current value, and the transaction price is deemed to reflect the particular current measurement basis that will be used. In such a case, specifying that the asset is to be initially recognised at transaction price makes it clear that that application of the policy will not result in the recognition of revenue and expense on initial recognition—"day one" gains or losses. In principle, the same measurement basis is used for both initial and subsequent recognition—the requirements for each are specified differently in order to assist understanding.

BC7.12 The IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement. Accordingly the discussion in this Chapter is applicable to both situations.

Entry and Exit Values: Value in Use

BC7.13 Measurement bases can be classified according to whether they provide an entry or exit perspective. As discussed in paragraph 7.8 entry values reflect the cost of purchase and exit values reflect either:

- The economic benefits from immediate sale; or
- The amount that will be derived from the asset from its use and subsequent sale.

The IPSASB is of the view that awareness of whether a measurement basis is an entry or exit value is useful in determining which measurement basis best meets the measurement objective.

BC7.14 The IPSASB considered whether value in use should be classified as an entry value or an exit value. For a cash-generating asset value in use involves a discounted cash flow model using expected cash flows from the sale of good and services. For non-cash-generating assets value in use uses replacement cost as a surrogate—replacement cost is an entry value. This led some to express a view that for a non-cash-generating asset value in use has an entry perspective while an asset is being used and an exit perspective when sold—in this view a failure to indicate that value in use contains both entry and exit perspectives does not reflect public sector circumstances. The IPSASB acknowledges this view, but does not think that the use of replacement cost as a surrogate to calculate value in use means that value in use becomes an entry value. The IPSASB therefore concluded that value in use is an exit value for both cash-generating and non-cash-generating assets.

Measurement Bases for Assets

Historical Cost

BC7.15 Historical cost is a widely applied measurement basis in many jurisdictions. Many respondents to the Consultation Paper and the Exposure Draft advocated the continued widespread use of historical cost as a measurement basis, mostly in combination with other measurement bases. They supported this view by reference to the accountability objective and the understandability and verifiability of historical cost. They also noted that, because historical cost is widely adopted in combination with other measurement bases, its continued use avoids the costs that would arise if a future revision of a current standard that requires or permits historical cost were to require the use of a different measurement basis.

BC7.16. Some respondents considered that historical cost information provides a highly relevant basis for the reporting of the cost of services because the link between historical cost and the transactions actually undertaken by the entity is particularly important for an assessment of accountability. In particular, historical cost provides information that resource providers can use to assess the fairness of the taxes they have been assessed, or how the resources that they have otherwise contributed in a reporting period have been used.

BC7.17 The IPSASB agrees that, in many contexts, it is relevant to provide information on the transactions actually carried out by the entity, and accepts that users are interested in the cost of services based on actual transactions. Historical cost provides information on what services actually cost in the reporting

period, rather than what they will cost in the future; pricing decisions based on historical cost information may promote fairness to consumers of services.

- BC7.18 The IPSASB also acknowledged the views of those who consider that the use of historical cost facilitates a comparison of actual financial results and the approved budget. The IPSASB accepts that budgets may often be prepared on a historical cost basis and that where this is the case historical cost enhances comparison against budget.
- BC7.19 The IPSASB also acknowledged a contrary view: that assessing and reporting the cost of providing services in terms of the value that has been sacrificed in order to provide those services provides useful information for both decision making and accountability purposes. Because historical cost does not reflect the value of assets at the time they are consumed, it does not provide information on that value in circumstances where the effect of price changes is significant. The IPSASB concluded that it is important that the Conceptual Framework responds to both these contrasting perspectives.

Market Value and Fair Value

- BC7.20 The Exposure Draft did not propose fair value as a measurement basis. Rather it proposed market value, which was defined in the same way as fair value in the IPSASB's literature at the time the Conceptual Framework was developed. A number of respondents challenged the omission of fair value as a measurement basis. They pointed out that fair value is a measurement basis that is defined and used in specifying measurement requirements by many global and national standard setters and that a definition of fair value had been used extensively in IPSASB's literature. Many supporters of fair value considered that the definition should be an exit value as defined in International Financial Reporting Standards (IFRS).⁵
- BC7.21 The IPSASB's rationale for the approach proposed in the Exposure Draft was that fair value is similar to market value and the inclusion of both measurement bases could be confusing to users of financial statements. The IPSASB also noted that fair value in IFRS is explicitly an exit value—unlike the definition of fair value in the IPSASB's literature at the time the Conceptual Framework was developed. Therefore, the relevance of fair value in the public sector is likely to be primarily limited to providing information on financial capacity, rather than on providing information on operating capacity and the cost of services. In addition, in this chapter replacement cost is a measurement basis in its own right, rather than a valuation technique to determine fair value.
- BC7.22 In the public sector many assets are specialized and differences in entry and exit prices are therefore significant. Where an asset will provide future services or economic benefits with a greater value than the asset's exit price, a measure reflecting exit values is not the most relevant basis. Where the most resource efficient course is to sell the asset—because the value of the services that it will provide or the expected cash flows from use is not as great as the value receivable from sale, the most relevant measurement basis is likely to be net selling price, which reflects the costs of sale and, although likely to be based on market evidence, does not assume the existence of an open, active and orderly market.
- BC7.23 In considering the merits of fair value as a measurement basis, the IPSASB accepted that fair value provides a relevant basis for assessing a financial return. Where assets are stated at fair value, financial performance can be assessed in the context of the return implicit in market values. However, public sector activities are not generally carried out with a view to obtaining a financial return, so the relevance of assessing any such return is limited.
- BC7.24 In finalizing the measurement chapter the IPSASB considered three main options in dealing with this issue:
- Adopt an exit value-based definition of fair value;
 - Retain the definition of fair value in IPSAS prior to the development of the Conceptual Framework; or
 - Include market value, rather than fair value, as a measurement basis as proposed in the Exposure Draft.
- BC7.25 Adopting an exit value-based definition of fair value would have meant using a definition that is not well aligned with the objectives of most public sector entities—the delivery of services rather than the

⁵ IFRS 13, *Fair Value Measurement*, provides the definition of fair value.

generation of cash flows. It is questionable whether exit value-based measures would provide relevant information for many assets held for their operational capacity and for liabilities where it is not feasible to transfer the liability.

- BC7.26 Including the IPSASB's current definition of fair value or a slightly modified version of that definition in the Conceptual Framework would have meant that two global standard setters would have different conceptual definitions of the same term.
- BC7.27 The IPSASB acknowledged that not including fair value as a measurement basis would have implications for the IPSASB's extant literature at the time the Conceptual Framework was finalized, because a number of IPSAS's contained fair value in measurement requirements or options.
- BC7.28 On balance, the IPSASB concluded that, rather than include an exit value-based definition of fair value, or a public sector specific definition of fair value, the Conceptual Framework should include market value as a measurement basis rather than fair value. The IPSASB sees fair value as a model to represent a specific measurement outcome. The IPSASB may carry out further work at standards level to explain how the measurement bases in this chapter align with fair value, as implemented in IFRS.

Replacement Cost, Net Selling Price and Value in Use

- BC7.29 Because, the objective of public sector entities is to deliver services, often in non-exchange transactions, rather than to make profits many non-financial assets are held for operational purposes. Furthermore, many of these assets are specialized and unlikely to be purchased or sold in open, active and orderly markets. Market value facilitates an assessment of financial capacity and operational capacity where operational assets are not specialized and are traded in open, active and orderly markets. However, current measurement bases other than market value are necessary in order to provide useful information on the cost of services and operational capacity where assets are specialized and where market-based information is limited.
- BC7.30 In evaluating measurement bases that provide the most useful information for specialized operational assets the IPSASB sought a basis that reflects the continuing provision of goods and services by public sector entities. The most appropriate basis for such assets is one that provides information on the cost of service potential that is attributable to an asset.
- BC7.31 The IPSASB considered reproduction cost as a potential measurement basis. Reproduction cost is easily understandable. However, it reflects the cost of obtaining an identical asset, rather than the cost of replacing the service potential provided by an asset. Therefore, reproduction cost may reflect features of assets that no longer serve any economic purpose and its use may exaggerate the value of an asset. Replacement cost avoids this risk because it is based on the most economic cost required for the entity to replace the service potential of an asset. While accepting that the calculation of replacement cost may in some cases be complex and involve subjective judgments, the IPSASB concluded that replacement cost is the current value measurement basis that often best meets the measurement objective and achieves the qualitative characteristics. The IPSASB acknowledged that guidance will be necessary at standards level on the approach to implementation of replacement cost.
- BC7.32 The IPSASB acknowledged that replacement cost will not always be an appropriate measurement basis for specialized operational assets. There may be circumstances where an entity no longer intends to continue to operate an asset. In such circumstances replacement cost is not a useful measurement basis, because it would not be rational for the entity to replace the service potential provided by an asset. The IPSASB therefore considered the appropriate measurement basis for such circumstances. Under these circumstances an entity-specific measurement basis that reflects the constraints on sale for an entity and provides an exit value is more appropriate. The IPSASB concluded that net selling price best meets the measurement objective. Net selling price is therefore included as a measurement basis in this chapter. Net selling price also provides information that meets the measurement objective, where an entity is contractually required, or in a binding arrangement, to sell an asset at below market value, perhaps in order to meet a social or political objective.
- BC7.33 In order to provide a complete analysis of the circumstances under which public sector entities operate, the IPSASB also considered the situation where it would not be rational for an entity to seek to replace the service potential embodied in an asset, but it is still more rational for the entity to continue to operate the asset than to sell it immediately. Value in use includes the cash flows or service potential from continued operation of the asset and the proceeds of sale. The IPSASB therefore concluded that value in

use should be included as a potential measurement basis. The IPSASB acknowledged that this measurement basis is not straightforward to operationalize in a non-cash-generating context, and that, in determining value in use, it might therefore be necessary to use replacement cost as a surrogate.

Fair Value Model

- BC7.34 As indicated in paragraph BC7.20 the Exposure Draft did not propose fair value as a measurement basis in its own right. However, it proposed the fair value measurement model as a method of estimating a measurement where it had been determined that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly.
- BC7.35 A minority of respondents to the Exposure Draft supported the fair value measurement model. Some of these respondents thought that the IPSASB should provide further details of its application. Others were supportive of the model, but suggested that a detailed measurement model would be inappropriate for the Conceptual Framework—some of these respondents considered that it should be addressed as a standards-level estimation technique. Many respondents put forward a view that fair value should be proposed as a measurement basis in its own right using the IFRS definition, while others wanted more detail on approaches to estimating fair value to complement its adoption as a measurement basis. Conversely, other respondents expressed a view that fair value is inappropriate for the public sector
- BC7.36 The IPSASB found the views of those who considered the fair value model too low level for the Conceptual Framework persuasive. The IPSASB also accepted the view of those respondents who felt that not defining fair value as a measurement basis, but reintroducing fair value through the model was confusing. The IPSASB therefore decided not to include the fair value model in the final chapter.

Deprival Value Model

- BC7.37 The Consultation Paper discussed the deprival value model as a rationale for selecting a current value basis. Some respondents expressed reservations—in particular that the model would be costly and impose a disproportionate burden on preparers to have to consider three possible measurement bases for each asset that is reported. A number of respondents also considered that it is overly complex. A view was also expressed that the deprival value model unduly exaggerates the qualitative characteristic of relevance and neglects the other qualitative characteristics.
- BC7.38 Although the IPSASB recognized that the deprival value model has been adopted successfully in some jurisdictions, the IPSASB acknowledged such reservations in whole or part. The IPSASB therefore included the deprival value model in the Exposure Draft as an optional method of choosing between replacement cost, net selling price, and value in use where it had been decided to use a current measurement basis, but the appropriate basis could not be identified by reference to the objectives of financial reporting and the qualitative characteristics.
- BC7.39 Although a minority of respondents to the Exposure Draft were highly supportive of the deprival value model, many respondents continued to express reservations about the model's complexity. The IPSASB also acknowledged a technical ambiguity in the deprival value model—if net selling price is higher than replacement cost a development opportunity might be indicated and that users should be provided with this information, which the deprival value model would not do. Due to these factors the IPSASB decided not to include the deprival value model in the Conceptual Framework. However, some of the insights provided by the model in its analysis of the relationship between replacement cost, net selling price and value in use have been retained—for example, that it is inappropriate to measure an asset at replacement cost if the higher of net selling price or value in use is lower than replacement cost.

Symbolic Values

- BC7.40 In some jurisdictions certain assets are recognized on the statement of financial position at symbolic values, typically one unit of the presentation currency. This treatment is adopted in order to recognize assets on the face of the statement of financial position when it is difficult to obtain a valuation. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between asset management and accounting processes.
- BC7.41 The IPSASB acknowledges that such an approach is intended to provide useful information. However, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on financial capacity, operational capacity or

the cost of services. The majority of the IPSASB concluded that the decision whether to recognize an item as an asset should be made following an assessment of whether the item meets the definition of an asset and recognition criteria in Chapter 5, *Elements in Financial Statements*, and Chapter 6, *Recognition in Financial Statements*. The IPSASB also accepted that, in cases where, it is impossible or very costly to obtain a valuation, it is important that the information to be provided through disclosures is carefully considered at standards level.

Measurement Bases for Liabilities

Assumption Price and Cost of Release

BC7.42 The IPSASB acknowledged the views of those who noted that, as many services are provided by public sector entities in non-exchange transactions there will often not be an assumption price. The IPSASB accepted that the circumstances under which assumption price will meet the measurement objective are limited. However, insurance and similar obligations, such as financial guarantees, are liabilities 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 premiums following initial recognition.

BC7.43 Some respondents to the Exposure Draft also questioned whether cost of release should be included. The IPSASB acknowledged that in many cases in the public sector, particularly for non-exchange transactions, there is unlikely to be a cost of release, because there will not be an external party willing to accept the transfer of a liability from the obligor for a specified amount. Even where a cost of release can be determined the external party is unlikely to accept a sum lower than cost of fulfillment in settlement. Therefore, liabilities arising from non-exchange transactions are likely to be measured at the cost of fulfillment, and this will often be the only practical and relevant measurement basis. Nevertheless the IPSASB decided to retain assumption price and cost of release as measurement bases in the Conceptual Framework as there may be limited circumstances where these measurement bases meet the measurement objective.

Other Issues

BC7.44 The Consultation Paper sought the views of respondents on the following two issues related to measurement:

- The treatment of an entity's own credit risk and changes in value attributable to changes in an entity's own credit risk; and
- Whether the measurement of an asset should reflect only the service potential relating to its existing use, or whether the measurement of an asset should include the incremental value relating to its possible alternative use.

BC7.45 The majority of respondents who commented on these issues considered that they were more appropriately dealt with at standards level rather than in the Conceptual Framework. The IPSASB concurred with this view, and these issues are accordingly not addressed in the Conceptual Framework. The IPSASB noted that where a market value is used to measure a liability it is necessary to consider the treatment of the entity's own credit risk.

Chapter 8 Presentation in General Purpose Financial Reports

Concepts Applicable to Presentation in GPFRs

BC8.1 This Chapter describes concepts applicable to presentation in GPFRs, including both financial statements and additional information that enhances, complements, and supplements the financial statements. During development of this Chapter some respondents to the Consultation Paper, *Presentation in General Purpose Financial Reports* (the Consultation Paper), and the Exposure Draft, *Presentation in General Purpose Financial Reports* (the Exposure Draft), argued that the IPSASB should focus exclusively on the financial statements. Some respondents who supported the proposed more comprehensive approach considered that the resulting concepts should also be sufficiently detailed to address issues particular to financial statements.

BC8.2 The IPSASB considers that effective presentation of information in both financial statements and other GPFRs is very important in meeting the objectives of financial reporting. Presentation of information in other GPFRs raises particular challenges for the IPSASB and preparers, which makes the development

of applicable concepts essential to guide the development of presentation requirements in both IPSASs and RPGs. Nevertheless, the IPSASB acknowledged the need to provide concepts that are sufficiently detailed for application to the financial statements. Therefore this Chapter describes presentation concepts for all GPFRs, and sets out the concepts applicable to financial statements in more depth.

Presentation in the Financial Statements

- BC8.3 The further detail provided on financial statements responds, as noted above, to the need to ensure that the concepts proposed are applicable to the financial statements. However, this Chapter does not propose the number or type of financial statements that should be specified in IPSASs and RPGs. This approach acknowledges that, internationally, some preparers treat the “primary” financial statements as a minimum requirement, with flexibility for the preparer to add further statements—for example, additional statements that list commitments or public sector debt—to the financial statements required by IPSASs. It is also consistent with the need to avoid over-specification at the Conceptual Framework level.
- BC8.4 This Chapter also does not attempt to identify a list of information that should be included in the financial statements, including the notes. This means that the presentation concepts applicable to the financial statements will remain relevant as changes occur in areas such as:
- The type of information required to adequately meet the objectives of financial reporting;
 - The information technology available to present information in GPFRs; and
 - The type of economic or other phenomena on which financial statements present information.

Language in which Financial Statements and Other GPFRs are issued

- BC8.5 Some respondents to the Exposure Draft expressed a view that the language (or languages) in which the financial statements and other GPFRs are issued has implications for whether they will support achievement of the objectives of financial reporting and achieve the qualitative characteristics. Responding to this concern the IPSASB decided that this Chapter should address the language(s) in which GPFRs are issued. The quality of any translation will impact on the usefulness of a GPFR to users who depend on that translation. The quality of translation should be sufficient to ensure that the translated version(s) are faithful to the original language version. A faithful translation enables users to obtain the same understanding as that of an original language speaker reading the original language version.

Presentation, Display and Disclosure

- BC8.6 During development of this Chapter descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information” were proposed. Respondents had different views on whether the descriptions were appropriate. There was significant support for the description of presentation, which covered the selection, location and organization of information. Some respondents opposed the introduction of such descriptions, because they considered that the terms “presentation” and “disclosure” have been widely used by standard setters and have generally accepted meanings. Some respondents to the Exposure Draft advocated the alignment of the IPSASB’s terminology with the presentation terminology for the financial statements under development by the International Accounting Standards Board in its project to update its Conceptual Framework.
- BC8.7 The IPSASB considers that having terminology that applies to all information included in GPFRs, rather than just the financial statements, may prevent full alignment with terminology that relates only to the financial statements. If the term “presentation” applies to information that conveys key messages in the financial statements, then extending the same term to other information included in GPFRs changes the meaning of the term. The term “display” signals that information that conveys key messages can be selected for either the financial statements or other information included in GPFRs.
- BC8.8 The IPSASB is of the view that the distinction between presentation and disclosure used in some jurisdictions, where presentation applies to the process of reporting information on the face of a statement and disclosure applies to the process of reporting information in the notes, is inadequate for presentation concepts for GPFRs. Distinctions focused on the financial statements have limited usefulness and may be confusing for other GPFRs outside the financial statements. In the context of the financial statements, display and disclosure support a clear distinction between the process of reporting information on the face of a financial statement—display—and that of reporting information in the notes to the statements—

disclosure. For these reasons the IPSASB retained the descriptions of presentation, display and disclosure proposed in the Exposure Draft with revised explanations.

- BC8.9 The description of presentation proposed in the Consultation Paper included both what presentation is—information selection, location and organization—and what presentation should do—it should meet the objectives of financial reporting, the needs of users, and achieve the qualitative characteristics. After further consideration the IPSASB decided that separation of these two areas would better facilitate consideration of presentation issues. Therefore presentation is described as information selection, location and organization. There is also a description of what presentation aims to achieve, which is to provide information that contributes to the objectives of financial reporting, and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs.
- BC8.10 Some respondents considered the distinction between core and supporting information proposed in the Consultation Paper implied that information in the notes to the financial statements is less important than information on the face of a statement and that it created a hierarchy. Although the IPSASB did not intend to imply that supporting information is less important than core information the IPSASB acknowledged such concerns. The IPSASB therefore reconsidered the need for a distinction between core and supporting information and concluded that incorporating the ideas related to these two types of information into the descriptions of display and disclosure within each GPFR would be more appropriate. Consequently the terms core information and supporting information were not retained in the Exposure Draft and the descriptions of display and disclosure were revised to explain what types of information would be displayed and what disclosed, without the implication that one type of information is more important than the other. This approach is reflected in this Chapter.
- BC8.11 The IPSASB also considered whether all GPFRs contain both information for display and information for disclosure, and whether it is possible to have a GPFR that only contains information for disclosure. Because key messages exist for each type of GPFR, and information to convey those key messages needs to be displayed, the IPSASB concluded that all GPFRs contain both information for display and information for disclosure.

Overall Approach to Presentation

- BC8.12 The Consultation Paper proposed an approach to presentation of:
- Focusing on user needs to identify presentation objectives;
 - Applying the qualitative characteristics to presentation decisions; and
 - Identifying separate presentation concepts—the proposed concepts were Concept 1: Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely; Concept 2: Locate information to meet user needs; and Concept 3: Organize information to make important relationships clear and support comparability.

The Consultation Paper also proposed that presentation objectives should be established at the standards level, for application to particular reports or reporting topics.

- BC8.13 Respondents generally agreed that the needs of users and achievement of the qualitative characteristics were important for presentation decisions. They supported the development of presentation objectives, but advocated that such objectives should be included in the Conceptual Framework, rather than just at standards level. Although they generally agreed that separate presentation concepts should be developed, a significant number of respondents disagreed with the three presentation concepts proposed. Some respondents disagreed with the way that the three presentation concepts emphasized particular qualitative characteristics or constraints on information included in GPFRs. They argued that other qualitative characteristics or constraints should be addressed. Others argued that the concepts added little, if anything, to the discussion of the qualitative characteristics and constraints on information included in GPFRs in Chapter 3, *Qualitative Characteristics*.
- BC8.14 On balance the IPSASB concluded that a simpler, more focused approach, which directly applied the concepts in Chapters 1–4 to presentation decisions was appropriate. The IPSASB is of the view that decisions on information selection, location and organization are made in response to the needs of users for information about economic or other phenomena. Presentation decisions are made to seek to achieve the objectives of financial reporting, and they involve application of the qualitative characteristics and constraints on information included in GPFRs.

- BC8.15 Presentation decisions may be either (a) decisions that may result in development of a new report, movement of information between reports, or the amalgamation of existing reports; or, (b) detailed decisions on information selection, location and organization related to information within a report. It is useful to distinguish between these two types of presentation decisions in the context of the more comprehensive scope of financial reporting discussed in Chapter 2. Both types of decisions are important and there is no intention to convey a hierarchy. The difference is one of breadth or sequencing of decisions—for example, a decision to create a new report conveys that a broad set of information will be presented. The subsequent, more specific decisions will address what is presented within that report and are equally important.
- BC8.16 The need to distinguish between the display and disclosure of information is a further important aspect of the IPSASB’s overall approach to presentation. An example of a detailed decision within a report is a decision about whether information should be displayed on the face of a financial statement or disclosed in the notes.

Presentation Objectives

- BC8.17 As stated above, in the Consultation Paper the IPSASB proposed the development of “presentation objectives” to guide presentation decisions. Although many respondents supported identifying presentation objectives the IPSASB decided against the inclusion of presentation objectives in this Chapter, because they would create an unnecessary additional layer of objectives beneath the objectives of financial reporting in Chapter 2. Development of a second layer of presentation objectives could be confusing and detract from the objectives of financial reporting. This approach was proposed in the Exposure Draft and was generally supported by respondents.

Application of the Qualitative Characteristics and Constraints

- BC8.18 During development of this Chapter many respondents supported application of the qualitative characteristics to presentation decisions. However, some respondents expressed reservations that the constraints on information included in GPFRs had not been properly integrated into the overall approach to presentation. The IPSASB agrees that the constraints apply to presentation decisions. They are therefore included in the overall approach to presentation and in subsequent discussion of the application of the three presentation decisions.

Presentation Concepts

- BC8.19 After considering respondents’ concerns about the three presentation concepts proposed in the Consultation Paper and possible further changes to address those concerns, the IPSASB concluded that the ideas in the three concepts were adequately addressed through application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Therefore, in the Exposure Draft the IPSASB replaced the three presentation concepts proposed in the Consultation Paper with a revised description of the application of the qualitative characteristics and constraints on information included in GPFRs to presentation decisions. Respondents to the Exposure Draft generally supported the direct application of the concepts established in Chapters 1–4, rather than development of an intermediary set of either presentation concepts or presentation objectives.

Information Organization: Links to External Information

- BC8.20 Chapter 2 of the Conceptual Framework explains that users of GPFRs may also need to consider information from other sources, including reports on current and anticipated economic conditions, budgets and forecasts, and information about government policy initiatives not reported in GPFRs. The IPSASB considered whether GPFRs should include links to such information. Although the IPSASB acknowledged the risk that such information may not achieve the qualitative characteristics, the IPSASB concluded that such links can support understandability. Therefore, provided information from external sources does not undermine achievement of the qualitative characteristics the IPSASB concluded that GPFRs might include links to such information.