



## Staff Paper

April 2011, AASB Agenda Paper 9.2 / FRSB Agenda Paper BX.X

### Draft Comments to IPSASB on Key Issues in Conceptual Framework Phase 1 Exposure Draft

Members are requested to consider whether they agree with the comments below on the issues identified.

Issue	Board Comment
<p>The ED does not propose defining the <b>scope</b> of general purpose financial reporting. Instead, it says the scope will evolve in response to users' information needs (para. 1.5). It also says GPFs can report non-financial information about the achievement of service delivery objectives and future service delivery activities (para. 1.6).</p> <p>The AASB's submission on the IPSASB Consultation Paper on long-term fiscal sustainability expressed concern that relevance is not a sufficient criterion for determining which information types should fall within the scope of financial reporting. This illustrates the need to define the scope of financial reporting, or at least identify criteria for assessing how the scope of financial reporting should evolve.</p>	<p>The IPSASB Framework should state the criteria the IPSASB plans to use in assessing how the scope of financial reporting should evolve in response to users' information needs – in particular, in determining which useful information belongs within the scope of <u>financial</u> reporting and which useful information falls outside the scope of financial reporting.</p>
<p>The ED proposes <b>two objectives</b> of general purpose financial reporting—to provide information useful to users for accountability purposes and for decision-making purposes (para. 2.1). [Decision-making would include resource allocation decisions of the kind referred to in the revised IASB Framework. It would also include decisions by taxpayers and ratepayers about voting preferences and lobbying of elected officials.]</p> <p>However, the ED identifies similar information needed to meet each proposed objective. Thus, it is unclear how identifying two objectives would help the IPSASB identify information</p>	<p>The IPSASB Framework should identify a single objective of financial reporting, namely, to provide information useful for decision making by users of financial reports. This would help with identifying the financial information needs of users that GPFs should strive to meet and that Standards should be developed to require. The IPSASB Framework should also indicate that:</p> <p>(a) discharging accountability is a key role of GPFs of public sector entities, which is achieved by providing financial information useful for decision making purposes. Therefore, accountability should not be</p>

<p>that should be required by IPSASs. Also, the amorphous nature of ‘accountability’ means that making accountability an objective could lead to identifying social responsibility reporting and the like as falling within financial reporting.</p>	<p>identified as a separate objective, but its relationship with providing information for decision making should be made more explicit; and</p> <p>(b) to provide confirmatory value to users, GPFRs should provide information useful for evaluating past decisions. Even if a user of a financial report takes no action as a result of evaluating past decisions, this reflects the user’s decision not to act.</p>
<p><b>Issue</b></p>	<p><b>Board Comment</b></p>
<p>The ED identifies <b>primary users</b> of GPFRs, and describes them as “service recipients and their representatives and resource providers and their representatives” (para. 2.4). It also says: “The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers” (para. 2.4).</p> <p>Whilst it is useful to consider categories of users to help identify users’ common information needs, identifying ‘primary’ users may inappropriately imply the needs of some users should be disregarded.</p> <p>The ED identifies as primary users parties performing a representative (review or oversight) function on behalf of other primary users, but only when they are legislators/parliamentarians. It is inconsistent to identify some parties performing a review or oversight function as primary users but exclude others.</p>	<p>The IPSASB Framework should not identify primary users of GPFRs. However, if it does, ‘primary users’ should include (among others) all parties performing a review or oversight function on behalf of other users.</p>
<p>The ED says GPFRs provide information about <b>economic and other phenomena</b> (e.g., para. 3.10). It does not explain the meaning of such other phenomena.</p> <p>In contrast, the IASB’s revised Framework refers only to ‘economic phenomena’. It is inappropriate for GPFRs of any entity to depict phenomena that are not economic, because only</p>	<p>The IPSASB should explain its reference to providing information about phenomena other than ‘economic phenomena’. Referring to other phenomena implicitly expands the scope of financial reporting – such matters should be dealt with explicitly in the ‘scope of financial reporting’ component of the Conceptual Framework.</p>

<p>economic phenomena correspond to the real world and have potential implications for resource allocation decisions.</p>	
<p><b>Issue</b></p>	<p><b>Board Comment</b></p>
<p>The ED treats <b>materiality</b> as a constraint on reporting information that meets the qualitative characteristics (para. 3.32).</p> <p>In contrast, the IASB’s revised Framework treats materiality as an entity-specific aspect of relevance. This is because:</p> <ul style="list-style-type: none"> <li>(a) unlike cost, materiality is not a constraint on a reporting entity’s ability to report information; and</li> <li>(b) materiality does not affect standard setters’ decisions because it is an entity-specific consideration.</li> </ul> <p>The IPSASB argued that the omission or misstatement of an item of information might not undermine the relevance of the information reported but could undermine one or more of the other qualitative characteristics (para. BC3.32). However, if an item of information is irrelevant, meeting the other qualitative characteristics does not make it useful.</p>	<p>The IPSASB Framework should treat materiality as an entity-specific aspect of relevance, rather than as a constraint on reporting useful information.</p>
<p>The ED does not replicate the revised IASB Framework’s dichotomy between <b>‘fundamental’ and ‘enhancing’ qualitative characteristics</b>. The AASB and FRSB disagree in principle with that dichotomy. However, they decided there is not an apparent public sector specific reason to differ from the revised IASB Framework.</p>	<p>The IPSASB Framework should be consistent with the revised IASB Framework’s distinction between ‘fundamental’ and ‘enhancing’ qualitative characteristics, because there is not an apparent public sector specific reason to differ from the IASB Framework.</p>

Issue	Staff Comment <sup>1</sup>
<p>* Like the IASB ED on <b>Reporting Entity</b>, the IPSASB Phase 1 ED says a key characteristic of a reporting entity is the existence of dependent users (para. 4.2). However, like the IASB ED, the IPSASB ED does not provide guidance for identifying which entities have dependent users and should, in concept, prepare GPFRs.</p> <p>The AASB submission on the IASB ED on Reporting Entity agreed with the limited coverage of the proposed chapter on Reporting Entity, but also argued that the Framework should somewhere include guidance on the <b>characteristics of entities that should prepare GPFRs</b>.</p>	<p>The IPSASB Framework should include guidance for identifying which entities have dependent users and should, in concept, prepare GPFRs.</p>
<p>* The ED proposes that a <b>group reporting entity</b> includes entities that a [parent] has the authority and capacity to direct the activities of, and either:</p> <ul style="list-style-type: none"> <li>(a) does so to benefit from those activities; or</li> <li>(b) is exposed to a financial burden or loss that may arise from those activities. (para. 4.7)</li> </ul> <p>In this context, ‘benefits’ include financial returns, reductions in losses, and services (para. 4.8).</p> <p>The IASB ED on Reporting Entity does not include limb (b) above in its description of a group reporting entity.</p> <p>Staff think a parent entity could not be exposed to a financial burden/loss from a directed entity without having the capacity to reduce those losses. Because the IPSASB describes ‘benefits’ as including reductions in losses, the staff think limb (b) above is redundant.</p>	<p>The IPSASB Framework’s concept of a group reporting entity should exclude limb (b) [see adjacent column] because it is redundant and therefore confusing.</p>

<sup>1</sup> The Boards did not discuss reporting entity issues at their joint meeting in March 2011. Accordingly, the comments here are the staff’s recommendations for the Boards’ comments.

Issue	Staff Comment
<p>* The IASB ED on Reporting Entity defines the boundaries of a group reporting entity in terms of <b>control</b>. The proposed concept of a group reporting entity in the IPSASB Phase 1 ED is substantially the same as the IASB's proposed concept, but the term 'control' is not used.</p> <p>Various jurisdictions where IPSASs are adopted or referred to are strongly wedded to other terms than control. The IPSASB focused on the components of group reporting entity relationships, without referring to control, because agreement is much easier to reach on those components than on the notion of control. Staff sees the sense in this approach but, on balance, considers the argument for referring to 'control' is stronger. That argument is:</p> <ul style="list-style-type: none"> <li>• IPSASs are developed with reference to IFRSs and are applied or referred to by many parties who are strongly conversant with IFRSs.</li> <li>• Therefore, it is important not to create the appearance of substantive differences from IFRSs where none exists.</li> </ul>	<p>If, in substance, the IPSASB Framework defines the boundaries of a group reporting entity in terms of control, it should use that term.</p>
<p>* <b>Specific Matters for Comment</b> <i>These are set out on page 6 of the ED.</i></p>	<p>Except for the points of disagreement on the issues above, the IPSASB proposals in those Specific Matters for Comment are broadly supported.</p>