

IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports*

AASB Staff Issues Paper

Introduction

- 1 The IPSASB issued its Exposure Draft *Presentation in General Purpose Financial Reports* in April 2013, with comments to the IPSASB due by 15 August 2013. The *Action Alert* for the AASB's May 2013 meeting informed constituents that the IPSASB ED was out for comment. To date, AASB staff have not received any comments, or copies of comments to the IPSASB, from Australian constituents. AASB staff will endeavour to contact key public sector constituent organisations before the forthcoming AASB meeting, to ascertain whether they have any formal or informal comments to provide, and will provide a verbal update at the Board meeting.
- 2 This ED was preceded by a Consultation Paper (CP) of the same title, issued in January 2012, on which the AASB made a [submission](#) dated 8 June 2012. The AASB's comments in its submission on the CP are noted below where, and to the extent, they relate to aspects of the IPSASB ED.
- 3 This AASB Staff Issues Paper is structured to firstly discuss whether, overall, to support the IPSASB ED (paragraphs 5 – 12 below); followed by the staff's views on the Specific Matters for Comment asked in the Request for Comments section of the ED. As noted in paragraph 13 below, Specific Matter for Comment 1 (discussed in paragraphs 14 – 24 below) gives rise to the main concerns other than those discussed in paragraphs 5 – 12. AASB staff expect that the Board's discussion will focus on paragraphs 5 – 24 of this paper, and plan to deal with the other Specific Matters for Comment only if Board members raise issues in relation to them during the meeting.
- 4 The substance of some important terms used in the ED is:
 - (a) 'Presentation' is the overarching term for the selection, location and organisation of information in a general purpose financial report (GPFR);
 - (b) 'Display' refers to information that communicates the key messages in a GPFR. Displayed information is presented prominently. For example, in a set of financial statements, displayed information is shown on the face of the appropriate statement; and
 - (c) 'Disclosure' refers to supporting information that makes displayed information more useful. In a set of financial statements, disclosed information is presented in the notes.

Overall Comment

Whether to Support the IPSASB ED, Overall

- 5 AASB staff think that, overall, the ED should not be supported because, although the IPSASB Conceptual Framework indicates its role is primarily to set out concepts the

IPSASB will apply in developing IPSASs and Recommended Practice Guidelines (RPGs)¹, as far as AASB staff can determine, the ED does not contain principles that would assist the IPSASB in making decisions about presentation, display or disclosure in the development or review of IPSASs and RPGs. The ED notes the types of decisions that need to be made on these aspects in the preparation of a GPFR, but does not appear to provide guidance on how to make those decisions. This is elaborated on in paragraphs 6 – 8 below.

Lack of proposed principles

- 6 The ED does not appear to provide principles affecting presentation, display or disclosure decisions that are additional to the principles set out elsewhere in the finalised and proposed components of the IPSASB Conceptual Framework. Specifically, the ED does not provide criteria for:
 - (a) the selection of information [see Section 2];
 - (b) where information should be located in GPFRs, including whether an item should be displayed (shown on the face of a financial statement) or disclosed (in notes) [see Section 3]; or
 - (c) how information should be organised within a GPFR [see Section 4].
- 7 AASB staff think that, if the ED were intended to repeat aspects of other (final and proposed) Chapters of the IPSASB Conceptual Framework, the ED should have stated this explicitly. Related to this, AASB staff think the ED should ideally have indicated which parts of its content are simply consequences of other Chapters of the IPSASB Conceptual Framework and which parts (if any) cover new or separate aspects.
- 8 AASB staff think an implication of their concerns described in paragraph 6 above is that there are no apparent proposals for providing a framework for addressing the ‘disclosure overload’ problem in Accounting Standards for public and private sector entities (e.g. the problem also found in IFRSs).

Issue and subsequently revisit Chapter, or defer issuance?

- 9 Regarding the concerns discussed in paragraphs 5 – 8 above, it is pertinent that the AASB’s recent submissions on the IPSASB’s EDs on ‘Elements and Recognition’ and ‘Measurement’ encouraged the IPSASB to further develop the ‘Presentation’ chapter of its Conceptual Framework over time.² Having now reviewed the IPSASB ED, AASB staff strongly doubt that issuing a ‘Presentation’ chapter based on the ED

¹ Final Pronouncement, January 2013, paragraph 1.1.

² The AASB’s submissions said: “The AASB recommends that the IPSASB should regard its Conceptual Framework as a living document, and thus should commit to reviewing and updating it from time to time in light of subsequent developments in financial reporting. The timing of such reviews should reflect the IPSASB’s resources and priorities, and developments in conceptual thinking. This approach would be beneficial, for example, in respect of concepts of presentation and disclosure. The AASB considers that thinking on these concepts is still in the early stages of development, on the part of the IPSASB, the IASB and the international financial reporting community generally. Therefore, it seems likely that thinking on concepts of presentation and disclosure will continue to evolve further. Under circumstances such as these, it is important not to treat the IPSASB Conceptual Framework as an immutable document.”

would be worthwhile at this time. AASB staff think issuing the chapter would in effect ‘tick a box’, enabling the IPSASB to complete its Framework broadly according to its revised timeline, but not achieve as much as it could or should. The main potential problems AASB staff perceive with the IPSASB issuing a ‘Presentation’ chapter based on the ED are that:

- (a) issuing a chapter that does not appear to contain principles that would assist the IPSASB in making decisions about presentation, display or disclosure in the development or review of IPSASs and RPGs would seem likely to diminish the quality and status of the IPSASB Conceptual Framework; and, perhaps more importantly,
- (b) there would be a risk that, once the IPSASB issues the chapter, it would be disinclined to review and update the Chapter for a long time.

10 Therefore, AASB staff recommend that the AASB strongly encourages the IPSASB to proceed to publish its Conceptual Framework, except for its Presentation chapter, and announce that, in view of the emerging but largely undeveloped international debate about Presentation, it will separate ‘Presentation’ into a narrower scope Conceptual Framework project to be progressed in the medium term, the timing of which would depend on international developments. Regarding the international debate, the IPSASB could point to the Feedback Statement (entitled *Discussion Forum—Financial Reporting Disclosure*) issued by the IASB in May 2013³, which notes:

- (a) the current projects of eight accounting bodies (or similar entities) [including the IASB, EFRAG, FASB and the ICAS/NZICA] dealing with presentation, display, disclosure and materiality, chiefly at a framework level; and
- (b) the undeveloped nature of both the accounting literature and the international debate, regarding this general topic.

11 AASB staff are not aware of any public sector specific considerations that would reduce the usefulness of the above-mentioned international debate in assisting the IPSASB to develop a more comprehensive chapter on Presentation for its Conceptual Framework.

12 A mitigating aspect, partially undermining the AASB staff’s recommendation above, is that the general guidance on the selection, location and organisation of information in the IPSASB ED might be helpful (in a general sense) to preparers and others in dealing with presentation, display and disclosure issues that are not specifically addressed by IPSASs. However, in view of the very general nature of that guidance, AASB staff do not think this aspect is a sufficiently strong reason to issue a ‘Presentation’ chapter along the lines of the IPSASB ED.

Question for Board members

Q1 Do you agree with the AASB staff’s recommendation (in paragraph 10 above) that the AASB should strongly encourage the IPSASB to:

³ AASB staff plan to provide a briefing paper on that Feedback Statement for discussion at a future AASB meeting.

- (a) proceed to publish its Conceptual Framework, except for its Presentation chapter; and
- (b) announce that, in view of the emerging but largely undeveloped international debate about Presentation, it will separate 'Presentation' into a narrower scope Conceptual Framework project to be progressed in the medium term, the timing of which would depend on international developments?

Other Main Concerns

- 13 As discussed below under the IPSASB's Specific Matter for Comment 1, AASB staff's other main concerns with the IPSASB ED are with:
- (a) the ED's preliminary view that 'presentation' should be an overarching term for the subject matter of this proposed chapter of the IPSASB Conceptual Framework; and
 - (b) ambiguous wording in the ED that could result in interpretations that the ED retains the IPSASB CP's notion (with which the AASB previously expressed disagreement) that items reported on the face of a financial statement have primacy over items disclosed in the notes.

Specific Matters for Comment

Specific Matter for Comment 1

Do you agree with the proposed descriptions of 'presentation', 'display' and 'disclosure' and the relationships between them in Section 1? If not, how would you modify them?

Overview

- 14 Consistent with the AASB's submission on the IPSASB's CP on 'Presentation', AASB staff recommend disagreeing with the proposed descriptions of 'presentation', 'display' and 'disclosure' and the relationships between them in Section 1. In particular, AASB staff recommend arguing that:
- (a) 'presentation' should not be an overarching term; instead, 'display' would be a better term for that role; and
 - (b) the draft Framework chapter on 'Presentation' should clarify that 'displayed' information (i.e. in financial statements, information reported on the face of a financial statement) is not more important than 'disclosed' information (i.e. in financial statements, information reported in the notes).

These aspects are elaborated on in paragraphs 15 – 24 below.

‘Presentation’

- 15 The AASB’s submission on the IPSASB’s ‘Presentation’ CP did not support the CP’s proposed meanings of ‘presentation’, ‘display’ and ‘disclosure’. The AASB submission said:
- “Instead of giving ‘presentation’, ‘display’ and ‘disclosure’ the meanings in the CP, the AASB suggests using ‘display’ as the term encompassing the structure of financial reports, the nature and amount of information disclosed in financial reports and the manner in which those disclosures are presented. Consequently, it should be unnecessary to define ‘presentation’ and ‘disclosure’. The AASB considers that the plain English meaning of ‘display’ seems appropriate for this part of the Conceptual Framework, and that ‘display’ has the advantage of less connotations relating to particular aspects of practice.”
- 16 AASB staff note that the IASB, in its Conceptual Framework project, appears likely to include a preliminary view that ‘disclosure’ (rather than ‘display’) should be used as an overarching term. We suggest commenting to the IPSASB that:
- (a) the AASB encourages it to monitor the outcome of the IASB’s further deliberations on this issue;
 - (b) if the IASB’s forthcoming Conceptual Framework DP were to reflect the above-mentioned tentative thinking, the AASB would intend to disagree with that proposal; and
 - (c) because the AASB would not consider ‘display’ to be a fundamentally superior term to ‘disclosure’, it would consider it more important that the IPSASB’s and IASB’s terminology is consistent in this respect. However, the AASB would prefer either of these terms to ‘presentation’ (in this regard, AASB staff note that, during our work to develop principles for a Reduced Disclosure Regime, ‘presentation’ was found to seemingly have various meanings under both IPSAs and IFRSs).

Question for Board members

- Q2 Do you agree with the AASB staff’s recommendation in paragraphs 14 – 16 above that ‘presentation’ should not be an overarching term; and instead that ‘display’ would be a better term for that role (subject to the IASB’s decision on terminology)?

‘Display’ versus ‘disclosure’ (‘core’ and ‘supporting’ information)

- 17 The Basis for Conclusions on the ED says:
- “The need to distinguish the display and disclosure of information is a further important aspect of the IPSASB’s overall approach to presentation.”
(paragraph BC14, first sentence)
- 18 However, the Basis for Conclusions does not explain why this distinction is important, and the ED does not seem to provide clear criteria for making that distinction.

- 19 AASB staff are concerned that the ED might be read as implying that all key information is presented on the face of the appropriate financial statement, and other information presented in the notes makes that key information (shown on the face of the financial statement) more useful. Such an interpretation would seem similar to the IPSASB's preliminary view, in its CP on Presentation, to distinguish 'core' and 'supporting' information, with which the AASB disagreed in its submission. The AASB disagreed because:
- (a) the location of information in a GPFR does not necessarily imply its relative importance; and
 - (b) the distinction between 'core' and 'supporting' information was not clearly expressed in the CP. For example, the AASB said it is difficult to identify a clear distinction between core information and supporting information if (as the IPSASB said) supporting information sometimes is needed to enable an understanding of core information. The AASB said that, in such circumstances, the supporting information would seem integral to the core information and therefore not clearly distinct from it.
- 20 In relation to the IPSASB's reassessment of its preliminary view in its CP regarding 'core' and 'supporting' information, paragraph BC9 of the IPSASB's Basis for Conclusions on its ED says:
- “...There was no intention to imply that supporting information is less important than core information. ... the terms core information and supporting information have not been retained and the descriptions of display and disclosure have been 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.”
- 21 AASB staff support the removal of the distinction between 'core' and 'supporting' information and the statement in paragraph BC9 (quoted in paragraph 20 above) that displayed information is not more important than disclosed information. However, we think the ED could be interpreted as retaining the notion that items reported on the face of a financial statement have primacy over items disclosed in the notes, despite the IPSASB's comments in its Basis for Conclusions. In this regard, the IPSASB ED says:
- “For the financial statements, displayed information is shown on the face of the appropriate financial statement, while disclosures are in the notes. ... Distinguishing displayed information and disclosed information ensures that those items that directly relate to communicating an entity's financial position, performance and cash flows can be highlighted, with necessary supporting information provided through disclosure in the notes.” (paragraph 3.9);
- “Information selected for display communicates the key messages in a GPFR.” (paragraph 1.3, first sentence);

“Disclosed information makes displayed information more useful, by providing detail that will help users to understand the displayed information ...” (paragraph 1.4, first sentence); and

“Disclosure is not a substitute for display.” (paragraph 1.5, second sentence)

- 22 AASB staff note that the statement in paragraph 1.3 of the ED that information selected for display communicates *the* key messages in a GPFR (see quote in paragraph 21 above, emphasis added) might be interpreted—inconsistently with paragraph BC9—as indicating that all key information is presented on the face of a financial statement.
- 23 In addition, the statement that “Disclosure is not a substitute for display” (in paragraph 1.5, second sentence) also could be read as implying displayed information is more important than disclosed information, without considering the clarification in paragraph BC9 quoted in paragraph 20 above. Possibly, the statement is a rephrasing of the principle in paragraph 7.2 of the IPSASB ED on ‘Elements and Recognition’ (November 2012) that disclosure is not a substitute for recognition. However, if that were the meaning intended, why not use those more specific words?
- 24 AASB staff think it is important that the IPSASB clarifies the matters discussed in paragraphs 17 – 23 above, and that, in this regard, it would be useful for the AASB to recommend that the clarifying comments in paragraph BC9 (quoted in paragraph 20 above) are included in paragraph 1.6 of the ED to put paragraphs 1.3 – 1.5 of the ED in context.

Question for Board members

Q3 Do you agree that:

- (a) the IPSASB has responded to the AASB’s comment that ‘core’ and ‘supporting’ information should not be distinguished, but has done so in an ambiguous manner;
- (b) the AASB should encourage the IPSASB to clarify that displayed information is not more important than disclosed information; and
- (c) the AASB should encourage the IPSASB to achieve the step in (b) above by moving the above-mentioned clarifying comments in paragraph BC9 to paragraph 1.6 of the ED?

Specific Matter for Comment 2

Do you agree with the identification of three presentation decisions (selection, location and organisation) in Section 1? If not, how would you modify the identification of presentation decisions?

- 25 AASB staff recommend supporting the identification of the three presentation decisions (selection, location and organisation) in paragraphs 1.8 – 1.10 of Section 1, although, as noted in paragraphs 15 – 16, we think these decisions would more

appropriately be collectively described as ‘display decisions’ (where ‘display’ has a broader meaning than that attributed to it in the ED).

Question for Board members

Q4 Do you agree with the AASB staff’s recommendation in paragraph 25?

Specific Matter for Comment 3

Do you agree with the proposed approach to making presentation decisions in Section 1? If not, how would you modify it?

- 26 It is unclear to AASB staff how this question fundamentally differs from Specific Matter for Comment 1 (which also addresses key aspects of Section 1 of the ED). AASB staff recommend noting the Board’s views on SMC 1 and pointing out the apparent lack of guidance in Section 1 (and elsewhere in the ED) on how the IPSASB would use the draft Presentation chapter to make presentation decisions in the development or review of IPSASs and RPGs.

Question for Board members

Q5 Do you agree with the AASB staff’s recommendation in paragraph 26?

Specific Matter for Comment 4

Do you agree with the description of information selection in Section 2:

- (a) In the financial statements; and
- (b) Within other GPFRs?

If not, how would you modify the description(s)?

Overview

- 27 Regarding Section 2 on Information Selection, AASB staff’s primary concern (which it recommends noting in the Board’s submission) is that Section 2 does not seem to meet the IPSASB’s stated objective of providing criteria that would be useful for the IPSASB in developing or reviewing requirements (or guidance) on information selection in IPSASs or RPGs (see overall comments in paragraphs 5 – 8 above).
- 28 Based on Section 2 of the ED, it would appear that decisions about information selection are to be made largely (if not completely), in effect, by considering other parts of the IPSASB Conceptual Framework. [For example, paragraph 2.10 of the ED seems essentially to repeat the qualitative characteristics (QCs) in the QCs chapter of the IPSASB Conceptual Framework (January 2013).] AASB staff recommend commenting that, if that message were intended by the IPSASB, it should be stated explicitly.

Question for Board members

Q6 Do you agree with the AASB staff's recommendations in paragraphs 27 and 28?

General characteristics of an entity

29 AASB staff note that an apparent limitation of the ED is that it is not supported by identification, elsewhere in the IPSASB Conceptual Framework, of the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting⁴. The Board's points on this issue contained in its submission on the IPSASB's CP on Presentation are reproduced below for information:

“The AASB agrees with focusing on user needs to identify ‘presentation’ objectives. However, the AASB considers that decisions about the associated principles should be preceded by decisions about the economic phenomena to be presented and disclosed. This would flesh out the implications of focusing on user needs. As far as the AASB is aware, the IPSASB's work to date on its draft Conceptual Framework has not attempted to identify those economic phenomena in a structured manner. The AASB recommends that, to facilitate developing a coherent and structured set of objective-driven (rather than topic-driven) disclosures, the IPSASB should identify the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting.

The AASB Chairman has been undertaking research into these general characteristics of an entity, as a basis for developing a coherent and structured set of disclosures. Examples of these characteristics, which were provided to IPSASB project staff in September 2011 (based on research work-in-progress), are:

- (a) the capacity of the entity to provide goods and/or services under its current business model, and whether that capacity is changing over time;
- (b) the sustainability of the business model being employed, and whether that sustainability is changing over time;
- (c) the ability of the entity to change to alternative business models (entity sustainability), and whether that ability is changing over time;
- (d) the adequacy of the entity's financial structure, including liquidity and solvency, and whether that adequacy is changing over time; and
- (e) the capacity of the entity to change its financial structure, and whether that capacity is changing over time.

⁴ These general characteristics are the subject of the AASB Chairman's Research Paper on a Disclosure and Presentation Framework (the title of which is yet to be finalised), on which the AASB Chairman gave a presentation to the AASB at its December 2012 meeting.

[These particular characteristics (economic phenomena) are provided to illustrate an apparent gap in the draft IPSASB Conceptual Framework, rather than to initiate debate at this stage on what those particular characteristics should be (given that they are a work-in-progress).]

The AASB envisages the general characteristics of an entity identifying at a high level the information needs stemming from the objective of general purpose financial reporting, which it regards as providing information to users of GPFs that is useful for making decisions about the allocation of scarce resources, including providing information to discharge the accountability of the entity's management. In the hierarchy of a Conceptual Framework, those general characteristics of an entity would precede (or sit above) the qualitative characteristics of useful financial information and would determine the subject matter of the financial reports (economic phenomena depicted). ...”

- 30 The IPSASB has not identified (in either its finalised or proposed components of its Conceptual Framework) the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting. AASB staff hope that, in the long run, both the IASB and IPSASB will identify those general characteristics. In the meantime, we note this issue more for the AASB's information, bearing in mind that the Board's submission on the IPSASB's 'Presentation' ED might precede the publication of the AASB Chairman's Research Paper on this topic. Accordingly, we do not suggest repeating the comments on this topic made in the Board's submission on the IPSASB's CP on 'Presentation'. Instead, we recommend noting this emerging area of potential development as an example of why the IPSASB should treat its Conceptual Framework as a living document and, in particular, why it would be desirable to defer issuing the 'Presentation' chapter of the IPSASB Conceptual Framework.

Question for Board members

- Q7 Do you agree with the staff's recommendation in paragraph 30 regarding how to canvass the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting?

Other comment

- 31 Finally, on Section 2, AASB staff found part (c) of paragraph 2.1 confusing. AASB staff recommend suggesting that (based on what they assume the IPSASB meant) the wording of paragraph 2.1 should be amended as marked up below:

“Decisions about what information needs to be reported by an entity in a particular GPF involve consideration of: ... (c) information ~~already~~ reported by that entity in other GPFs.”

Question for Board members

- Q8 Do you agree with the AASB staff's recommendation in paragraph 31?

Specific Matter for Comment 5

Do you agree with the description of information location in Section 3:

- (b) In the financial statements;
- (b) In other GPFRs; and,
- (c) Between different reports within GPFRs?

If not, how would you modify the description(s)?

32 Regarding Section 3 on Information Location, AASB staff's main concerns are that:

- (a) it does not seem to meet the IPSASB's stated objective of providing criteria that would be useful for the IPSASB in developing or reviewing requirements (or guidance) on information location in IPSASs or RPGs (see overall comments in paragraphs 5 – 8 above); and
- (b) paragraph 3.3(c) refers to a factor affecting information location as being any jurisdiction-specific factors such as legal provisions. Without clarification of that reference, it could be interpreted as giving conceptual endorsement to jurisdiction-specific laws even if they are incompatible with the IPSASB's Presentation concepts. AASB staff think the IPSASB Framework should clarify that this would not be the case.

Question for Board members

Q9 Do you agree with noting the concerns identified by AASB staff in paragraph 32 above?

Specific Matter for Comment 6

Do you agree with the description of information organisation in Section 4:

- (c) In the financial statements; and
- (b) In other GPFRs?

If not, how would you modify the description(s)?

33 Regarding Section 4 on Information Organisation, AASB staff's main concerns are that:

- (a) it does not seem to meet the IPSASB's stated objective of providing criteria that would be useful for the IPSASB in developing or reviewing requirements (or guidance) on information organisation in IPSASs or RPGs (see overall comments in paragraphs 5 – 8 above); and
- (b) the fifth sentence of paragraph 4.5 says [in part (b)] that it is important that the date of delivery of linked information reported outside GPFRs is as close as possible to the reporting date of the financial statements, so that information is timely. Although AASB staff agree in principle with encouraging the

provision of timely information, we are concerned that, without elaboration, the above-mentioned comment might be misunderstood. For example, the comment might be read as being incompatible with linking narrative information in a particular GPFR with more detailed information provided in GPFRs prepared less frequently (e.g. intergenerational reports that might be produced once every, say, five years). In this regard, it would be useful to refer to linking with other information that is the most recent available (the timeliness of which may be affected by cost/benefit considerations and whether the preparation of that linked information is within the entity's control).

Question for Board members

Q10 Do you agree with noting the concerns identified by AASB staff in paragraph 33 above?

Specific Matter for Comment 7

Do you consider that CF—ED4 [i.e. this IPSASB ED] contains sufficient detail on concepts applicable to presentation in GPFRs, including the financial statements, of governments and other public sector entities? If not, how would you extend the proposals?

34 Consistent with the comments above on Specific Matters for Comment 4, 5 and 6, AASB staff think the IPSASB ED does not contain sufficient detail on concepts applicable to presentation in GPFRs, including the financial statements, of governments and other public sector entities to meet the IPSASB's stated objective of providing criteria that would be useful for the IPSASB in developing or reviewing requirements (or guidance) on information selection, location and organisation in IPSASs or RPGs (see also the overall comments in paragraphs 5 – 8 above). Because of the early stage of development of the international debate on presentation and disclosure, AASB staff do not propose particular additional or different conceptual guidance. Instead, AASB staff recommend strongly encouraging the IPSASB to monitor and participate in the international debate, before proceeding to publish its chapter on Presentation.

Question for Board members

Q11 Do you agree with the AASB staff's recommendation in paragraph 34?

Other Significant Issues

35 AASB staff have not identified any significant issues with the ED other than those mentioned above in response to the Specific Matters for Comment.

Question for Board members

Q12 Are there any other significant issues on which you wish to comment in the Board's submission on the ED?