



Australian Government
Australian Accounting
Standards Board

AASB 4-5 Sept 2013
Agenda paper 3.4.1 (M133)

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

16 August 2013

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Dear Ms Fox

IPSASB Exposure Draft Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Exposure Draft (ED). In formulating its comments, the AASB considered the views received from Australian constituents.

General Comments

The AASB's general comments on the IPSASB ED are very similar to those made in the AASB's submissions (dated 15 May 2013 and 3 June 2013) on the IPSASB Conceptual Framework EDs *Elements and Recognition in Financial Statements* and *Measurement of Assets and Liabilities in Financial Statements*, as they are generally pertinent to the IPSASB's Conceptual Framework project in its entirety.

Due process

The AASB recommends that the IPSASB issues an omnibus ED incorporating its proposed Conceptual Framework after it has redeliberated all of its Conceptual Framework EDs, rather than finalising its Conceptual Framework without further consultation. An omnibus ED would enable the IPSASB's constituents to comment on the IPSASB's latest thinking on all of its proposals in its Conceptual Framework project, and to have regard to recent developments in financial reporting (including developments in the Conceptual Framework project of the International Accounting Standards Board [IASB]). This would enable the IPSASB's constituents to gain a holistic perspective together with greater context, and this should facilitate both internal consistency within the IPSASB's Conceptual Framework and either alignment with, or understanding of reasoning for differences from, the IASB Conceptual Framework.

Subsequent review and update of the IPSASB Conceptual Framework

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. Such developments would include any changes in thinking about concepts occurring in the development of recent IPSASs, in addition to developments in Conceptual Frameworks of other standard setters. This approach would be particularly 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. Specific comments on the importance of revisiting the topics of presentation and disclosure in the IPSASB Conceptual Framework are set out further below in this letter.

Relationship between the IPSASB and IASB Conceptual Framework projects

The AASB recommends that the IPSASB maximises its liaison with the IASB regarding those Boards' respective Conceptual Framework projects, in the context of the Memorandum of Understanding between the International Federation of Accountants and the IASB dated 22 November 2011.

Ideally, the IPSASB and IASB Conceptual Frameworks would be complementary, where the only differences are those warranted by differences in circumstances. This would support the development of IPSASs and International Financial Reporting Standards (IFRSs) that differ only where necessary to deal with different economic phenomena. This approach is also likely to assist users of general purpose financial reports (GPFRs) who read financial reports across all sectors in the economy, which is important given the fundamental objective of general purpose financial reporting to meet users' information needs.

In relation to presentation and disclosure in particular, the AASB's encouragement of complementary concepts of the IPSASB and IASB is premised on the assumption that the IASB develops comprehensive concepts for presentation and disclosure, either within its current Conceptual Framework project or in revisiting those topics as conceptual thinking evolves.

The AASB's arguments in relation to the IPSASB ED in this submission are mainly focused on technical issues, and not primarily on whether the IPSASB's proposals are consistent with the tentative thinking of the IASB in its Conceptual Framework project.

Specific Comments

The AASB's most significant specific comments regarding the issues in the ED are set out below and elaborated on in Appendix A.

Conditional support for the proposed Presentation chapter of the IPSASB Conceptual Framework

The AASB congratulates the IPSASB for addressing the topic of presentation without the assistance of a well-developed standard setting literature on the topic, and for producing an ED that is well-structured and concise.

As explained previously, the AASB considers that the ED should be regarded as an evolutionary document and therefore should only form the basis of a Conceptual Framework chapter on Presentation if the IPSASB commits to reviewing and updating that chapter on a timely basis in light of the outcomes of various international projects on presentation and/or disclosure currently in progress (including the IASB's work on concepts for presentation and disclosure as part of its Conceptual Framework project). An IPSASB chapter based on the ED should be considered as an interim stage of the IPSASB's concepts on Presentation, because the ED does not include sufficient principles that would be useful in answering the Presentation questions the ED identifies. These comments are elaborated on below.

Adequacy of proposed principles

Although the IPSASB Conceptual Framework indicates its role is primarily to set out concepts that the IPSASB will apply in developing IPSASs and Recommended Practice Guidelines (RPGs), the ED does not appear to contain sufficient principles to assist the IPSASB in making decisions about presentation, display or disclosure in the development or review of IPSASs and RPGs.

The principles in the ED seem to essentially be limited to those set out elsewhere in the finalised and proposed chapters of the IPSASB Conceptual Framework. The AASB considers that the finalised chapter on Presentation should indicate 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.

The AASB observes that international debate about the subject matter of the IPSASB ED is emerging and largely undeveloped. In this regard, in May 2013 the IASB issued a Feedback Statement (entitled *Discussion Forum—Financial Reporting Disclosure*) noting:

- (a) the current projects of eight accounting bodies (or similar entities) [including the IASB, European Financial Reporting Advisory Group, US Financial Accounting Standards Board, the Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants] 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.

Another development with potential implications for the international debate regarding Presentation (and also for other parts of Conceptual Frameworks) is an Essay on a Disclosure and Presentation Framework published by the AASB on 14 August 2013 (copy attached). The essay contends there is a gap in the conceptual framework that, if filled,

would improve our ability to provide accounting responses to users' needs, including through the development of a better, purpose-driven disclosure and presentation framework. The essay contends there are a limited number of generic types of information, termed "stocks" and "flows", that characterise all types of entities to one degree or another. The essay contends the gap in the framework falls between the objective level and the lower levels. Both the objective and the stocks and flows identified are part of entities' environments. The selections of qualitative characteristics, elements, measurement bases and presentation/disclosure approaches are seen as accounting responses aimed at satisfying users' needs for information for decision making (the "objective"). Specification of the relevant stocks and flows could also bring meaning to "financial position" and "performance", and potentially provide a way to define financial reporting, bounding it by the generic stocks and flows identified.

The AASB is 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 revised chapter on Presentation for its Conceptual Framework.

For these reasons, the AASB strongly encourages the IPSASB to announce that, in view of the emerging but largely undeveloped international debate about presentation, it will review and update its Presentation chapter on a timely basis in light of the outcomes of various international projects on presentation and/or disclosure currently in progress. In addition, the AASB strongly encourages the IPSASB to participate in that debate.

Terminology

The AASB considers that, to avoid confusion and unnecessary change, 'presentation' should not be the overarching term that encompasses the selection, location and organisation of information in a GPFR. Instead, the AASB considers that either 'display' or 'disclosure' (whichever is more generally accepted) should be used, as these are more descriptive of the underlying notions in the ED. (Despite this view, this submission refers to the chapter on 'Presentation', for consistency with the IPSASB ED's expression.)

These comments are elaborated on below, and further in the AASB's response to Specific Matter for Comment 1 in Appendix A.

Distinction between 'display' and 'disclosure'

The AASB is pleased to note that the IPSASB has responded to the concern expressed by the AASB and others, regarding the IPSASB's Consultation Paper (CP) on Presentation, that 'core information' (i.e. information shown on the face of a financial statement) should not be treated as more important than 'supporting information' (i.e. information shown in a note). However, the AASB considers that the IPSASB has responded to that concern in an ambiguous manner. This is explained in the comments on Specific Matter for Comment 1 in Appendix A.

The AASB considers that the IPSASB Conceptual Framework chapter on Presentation should clarify more effectively than in the ED that, in serving the objective of financial reporting:

- (a) some information in a GPFR is more critical than other information;
- (b) how information is displayed can affect its interpretation by users; and
- (c) information shown on the face of a financial statement is not necessarily more critical than information shown in a note.

The AASB's responses to all of the specific matters for comment in the ED are set out in Appendix A.

If you have any queries regarding matters in this submission, please contact me or Jim Paul (jpaul@aasb.gov.au).

Yours sincerely

A handwritten signature in black ink, reading "K. M. Stevenson". The signature is fluid and cursive, with the first name "K. M." and the last name "Stevenson" clearly distinguishable.

Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB's response to the Specific Matters for Comment on the ED

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?

Summary

- 1 The AASB disagrees with the proposed descriptions of 'presentation', 'display' and 'disclosure' and the relationships between them in Section 1. In particular, the AASB considers that:
 - (a) 'presentation' should not be an overarching term; instead, 'display' or 'disclosure' (whichever is more generally accepted) would be a better term for that role; and
 - (b) the draft Framework chapter on Presentation should clarify that information shown on the face of a financial statement is not more important than information shown in the notes to the financial statements.

These aspects and related concerns are elaborated on in paragraphs 2 – 14 below.

Terminology

- 2 Consistent with the comments in the AASB's submission on the IPSASB's Presentation CP, the AASB does not support the ED's proposed meanings of 'presentation', 'display' and 'disclosure'. The AASB considers that, instead of giving 'presentation', 'display' and 'disclosure' the meanings in the ED, ideally 'display' should be used 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. Furthermore, the AASB is of the view that 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.
- 3 The AASB notes that the IASB's Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (July 2013) refers to 'disclosure' and 'presentation'. The IASB DP describes 'disclosure' as "the process of providing useful financial information about the reporting entity to users" (paragraph 7.11) and 'presentation' as "the disclosure of financial information on the face of an entity's primary financial statements" (paragraph 7.10). Thus, the IASB DP treats 'disclosure' as an overarching term.

- 4 The AASB presently intends to express disagreement, in its submission on the IASB DP, with using ‘disclosure’ (rather than ‘display’) as an overarching term. However, because the AASB would not consider ‘display’ to be a fundamentally superior term to ‘disclosure’, if the IASB were to confirm the preliminary view in its DP that ‘disclosure’ should be used as an overarching term, the AASB would consider it more important that the IPSASB’s and IASB’s terminology is consistent than for the IPSASB to use ‘display’ as an overarching term. Moreover, the AASB would prefer either of these terms to ‘presentation’ as an overarching term.

Distinction between ‘display’ and ‘disclosure’

- 5 The AASB considers that, in serving the objective of financial reporting:
- (a) some information in a GPFR is more critical than other information for assessing an entity’s condition and prospects and the rendering of its accountability. Effective communication of financial information to users of financial reports requires more critical information to be displayed in a manner that assists users to identify its importance;
 - (b) how information is displayed can affect its interpretation by users. For example, academic research has found that disclosure in notes will not remedy non-recognition or poor recognition of elements of financial statements; and
 - (c) information shown on the face of a financial statement (either separately or within a total) is not necessarily more critical than information shown in a note. For example, whether information about an item is shown on the face of a financial statement will depend on matters such as:
 - (i) whether the item itself meets the definition and recognition criteria for an element of financial statements. For example, information about an event (e.g. the commencement of legal proceedings against the entity) might be disclosed only in the notes because the event does not give rise to an element of financial statements that qualifies for recognition (e.g. a liability), but might nonetheless be one of the most critical items of information in the entity’s GPFR; and
 - (ii) the nature of the information about that item, regardless of whether that item is recognised in the financial statements. For example:
 - (A) some critical information about an entity might be about the entity’s legal or economic environment, such as a change in laws affecting the entity’s future operations, rather than an element of financial statements;
 - (B) critical disclosures about measurement uncertainties and of a sensitivity analysis might need to be made in notes due to their volume and complexity; and

- (C) some accounting policies adopted and judgements made in applying accounting policies might be critically important information for users of an entity's financial report.
- 6 In relation to paragraphs 5(a) and 5(b) above, how information is displayed (and, in particular, how more critical information is distinguished from other information) can affect its interpretation by users – but this is a more complex and nuanced issue than merely a dichotomy between 'display' and 'disclosure' (as those terms are used in the IPSASB ED). The IPSASB ED's heavy emphasis on the distinction between 'display' and 'disclosure' risks being interpreted as implying information shown on the face of a financial statement is more critical than information shown in a note (see also the comments in paragraphs 7 – 14 below).
- 7 The AASB considers that the IPSASB Conceptual Framework chapter on Presentation should clarify the aspects in paragraph 5 above more effectively than in the ED. In particular, in relation to the point in paragraph 5(c) above, the AASB:
- (a) is pleased to note that the IPSASB has responded to the concern expressed by the AASB and others, regarding the IPSASB's CP on Presentation, that 'supporting' information should not be treated as less important than 'core' information; but
 - (b) considers that the IPSASB has responded to that concern in an ambiguous manner. This is explained in the comments in paragraphs 8 – 13 below; and
 - (c) notes that the point in paragraph 5(c)(i) above is acknowledged in paragraph BC4 of the Basis for Conclusions on the IPSASB ED, but considers that it should be expressed more prominently in the Presentation chapter of the IPSASB Conceptual Framework.

Ambiguity regarding the distinction between 'display' and 'disclosure'

- 8 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)
- 9 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. The AASB is concerned that the ED might be read as implying that all key information is displayed on the face of the appropriate financial statement, and other information (disclosed in the notes) merely makes that key information more useful. Such an interpretation would be similar to how some respondents (including the AASB) interpreted the IPSASB's CP on Presentation as indicating that 'supporting' information is less important than 'core' information.
- 10 The AASB notes that, regarding 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.”

- 11 The AASB supports the removal of the distinction between ‘core’ and ‘supporting’ information and the statement in paragraph BC9 that displayed information is not more important than disclosed information. However, the AASB is concerned that these messages are clouded by the following comments in the IPSASB ED:

“Information selected for display communicates *the* key messages in a GPFR.” (paragraph 1.3, first sentence, emphasis added); and

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

- 12 The AASB notes that the statement in paragraph 1.3 of the ED that information selected for display communicates *the* key messages in a GPFR might be interpreted—inconsistently with paragraph BC9—as indicating that all key information is presented on the face of a financial statement.
- 13 In addition, the comment in paragraph 1.5 (second sentence) of the ED that “Disclosure is not a substitute for display” merits clarification. Possibly, the statement is intended to rephrase the principle in paragraph 7.2 of the IPSASB ED on ‘Elements and Recognition’ (November 2012) that disclosure is not a substitute for recognition (which the AASB supports – see paragraph 5(b) above). However, it could also be read as implying displayed information is more important than disclosed information, particularly if the reader does not read the much later comment in paragraph BC9 (quoted in paragraph 10 above).
- 14 The AASB considers it is important that the IPSASB clarifies the matters discussed in paragraphs 5 – 13 above, and that, in this regard, it would be useful to include the clarifying comments in paragraph BC9 in paragraph 1.6 of the ED, to put paragraphs 1.3 – 1.5 of the ED in context.

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?

- 15 The AASB supports the identification of the three presentation decisions (selection, location and organisation) in paragraphs 1.8 – 1.10 of Section 1. However, as noted in paragraphs 2 – 4 above, the AASB considers that these decisions would more appropriately be collectively described as ‘display decisions’ (where ‘display’ has a

broader meaning than that attributed to it in the IPSASB ED), subject to whether the IASB confirms the preliminary view in its Conceptual Framework DP that ‘disclosure’ should be used as an overarching term.

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?

- 16 The AASB supports the strong emphasis in Section 1 on striving to meet the objective of financial reporting when making presentation decisions. As the Essay on a Disclosure and Presentation Framework published by the AASB (referred to earlier in this submission) argues, there is a gap in the conceptual framework between the objective level and the lower levels. Filling that gap is necessary to flesh out the objective and, among other things, serve as a basis for developing principles for the presentation level of a Conceptual Framework. Therefore, whilst the AASB agrees that the starting point for presentation decisions is the objective of financial reporting, it considers there is much work to be done to support meeting that objective. In this regard, the AASB notes 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.
- 17 It is unclear to the AASB how this Specific Matter for Comment fundamentally differs from Specific Matter for Comment 1 (which also addresses key aspects of Section 1 of the ED). As mentioned in its comments on Specific Matter for Comment 1, the AASB considers that the IPSASB Conceptual Framework chapter on Presentation should clarify more effectively than in the ED that, in serving the objective of financial reporting:
- (a) some information in a GPFR is more critical than other information;
 - (b) how information is displayed can affect its interpretation by users; and
 - (c) information shown on the face of a financial statement is not necessarily more critical than information shown in a note.

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)?

- 18 The AASB’s primary concern regarding Section 2 on information selection is that 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 selection in IPSASs or RPGs (see comments on page 3 of this submission).

- 19 Based on Section 2, it would appear that decisions about information selection are to be made largely (if not completely), in effect, by considering other finalised and proposed chapters 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). The AASB considers that the finalised chapter on Presentation should indicate 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.
- 20 In addition, the AASB considers paragraph 2.1(c) to be confusing and potentially circular. Did the IPSASB intend indicating that an entity should consider information reported by that entity in other, limited-purpose, GPFRs (e.g. detailed financial reports on long-term sustainability of an entity's finances)? The AASB recommends that the IPSASB clarifies its intended meaning in paragraph 2.1(c).

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)?

- 21 The AASB's primary concern regarding Section 3 on information location is that 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 comments on page 3 of this submission).
- 22 The AASB also notes that paragraph 3.3(c) says a factor affecting information location is any jurisdiction-specific factors such as legal provisions. The AASB is concerned that, without clarification, that comment could be interpreted as giving conceptual endorsement to jurisdiction-specific laws even if they are incompatible with the IPSASB's Presentation concepts. The AASB recommends clarifying in the IPSASB Framework that this would not be the case.

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)?

- 23 The AASB's primary concern regarding Section 4 on information organisation is that 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 comments on page 3 of this submission).

Specific Matter for Comment 7

Do you consider that CF—ED4 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?

- 24 Consistent with its comments above on Specific Matters for Comment 4, 5 and 6, the AASB considers that 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. Because of the early stage of development of the international debate on presentation and disclosure, the AASB does not propose particular additional or different conceptual guidance. Instead, the AASB strongly encourages the IPSASB to announce that, in view of the emerging but largely undeveloped international debate about presentation, it will review and update its Presentation chapter on a timely basis in light of the outcomes of various international projects on presentation and/or disclosure currently in progress. In addition, the AASB strongly encourages the IPSASB to participate in that debate.