



Conceptual Framework Updates and Revisions: Chapter 3, Qualitative Characteristics, Chapter 5, Elements in Financial Statements, and Chapter 7, Measurement of Assets and Liabilities in Financial Statements

This summary provides an overview of the updated *Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*, and the revised *Chapter 7, Measurement of Assets and Liabilities in Financial Statements*

Project Objective:

The objective of the limited scope project is to update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility, and prevalence. These updates are made in light of:

1. The IPSASB's experience in applying the Conceptual Framework to the development and maintenance of International Public Sector Accounting Standards (IPSAS); and
2. Developments in international thinking about conceptual issues since the Framework was approved in 2014.

The changes reinforce the role of the Conceptual Framework as the cornerstone of IPSASB's core activity to develop high-quality financial reporting standards and also in guiding IPSASB's new sustainability reporting activities.

Approved:

The International Public Sector Accounting Standards Board® (IPSASB®) approved a revised Chapter 7 in December 2022 and updates of Chapter 5, and Chapter 3 in March 2023 and June 2023 respectively.

Project History:

The IPSASB launched the limited scope project to update the Conceptual Framework in 2019. In April 2021 the IPSASB issued ED 76, *Conceptual Framework Update: Measurement of Assets and Liabilities in Financial Statements*. In February 2022, the IPSASB issued ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*.

Responses to these EDs were considered in developing the updated and revised chapters.

Chapter 3: Clarifying the role of prudence and adding ‘obscuring information’ to factors affecting materiality judgments

Prudence is not a qualitative characteristic (QC) of financial reporting and there are no changes to the six current QCs.

Material information can be obscured when a preparer includes voluminous disclosures of non-material information.

Role of Prudence

The updated chapter includes guidance on the role of prudence in supporting neutrality, in the context of the QC of faithful representation.

Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense.

Prudence does not imply a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense (known as asymmetry). Individual standards may contain asymmetric requirements where these lead to more relevant and faithfully representative information.

Obscuring Information

The 2014 Conceptual Framework stated that information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s GPFRs.

In the view of the IPSASB there is a further risk that material information can be obscured.

This can happen if an entity includes information about transactions or events that are not material. The more voluminous the disclosures the greater this risk.

The updated Chapter 3 therefore acknowledges obscuring material information as a factor that can adversely affect users.

Chapter 5: Elements of Financial Statements

The IPSASB has made changes to the definitions of an asset and a liability and has added new guidance on a transfer of resources, unit of account and binding arrangements that are equally unperformed.

Assets and Liabilities

The updated Chapter 5 makes minor amendments to the definition of an asset and a liability to clarify issues raised in the standard-setting process.

- The definition of an asset was updated to reflect that control may arise from more than one past event. The revised definition is:

A resource presently controlled by the entity as a result of past events.

- The revised definition of a liability was developed to include the concept of ‘a transfer of resources’, rather than ‘an outflow of resources’. The revised definition is:

A present obligation of the entity to transfer resources as a result of past events.

The guidance on a liability has been restructured so that it aligns with the components of the definition and more clearly explains the distinction between an obligation and a present obligation.

Other Updates

The following updates were made to provide more extensive and useful guidance or to provide guidance in areas that were not discussed in the 2014 Conceptual Framework.

- More detail on ‘a transfer of resources’ than previously provided on ‘an outflow of resources’.
- A new section on ‘unit of account’.
- Guidance on the accounting treatment of binding arrangements that are equally unperformed by both parties.

Chapter 7: Measurement of Assets and Liabilities in Financial Statements

The revised Chapter 7 provides guidance on commonly used measurement bases.

Revised Chapter 7

The IPSASB has replaced Chapter 7 to streamline measurement concepts by eliminating unused measurement bases and focusing on the most commonly used measurement bases.

The revised guidance has been developed in conjunction with IPSAS 46, *Measurement*, to ensure consistency between conceptual and standards-level literature.

New Measurement Bases

Fair Value

Current Operational Value (public sector specific measurement basis)

Deleted Measurement Bases

Market Value

Replacement Cost

Cost of Release

Assumption Price

Deleted Definition (Replaced with General Guidance)

Value in Use

Subsequent Measurement Framework

Chapter 7 introduces the subsequent measurement framework, which illustrates the relationship between the different components of measurement when determining the value of an asset or liability.

Evolution (Not Revolution)

In developing more detailed guidance on the application of the commonly used measurement bases, the IPSASB evaluated its approach to measurement to better illustrate the relationship between models, bases, and techniques.

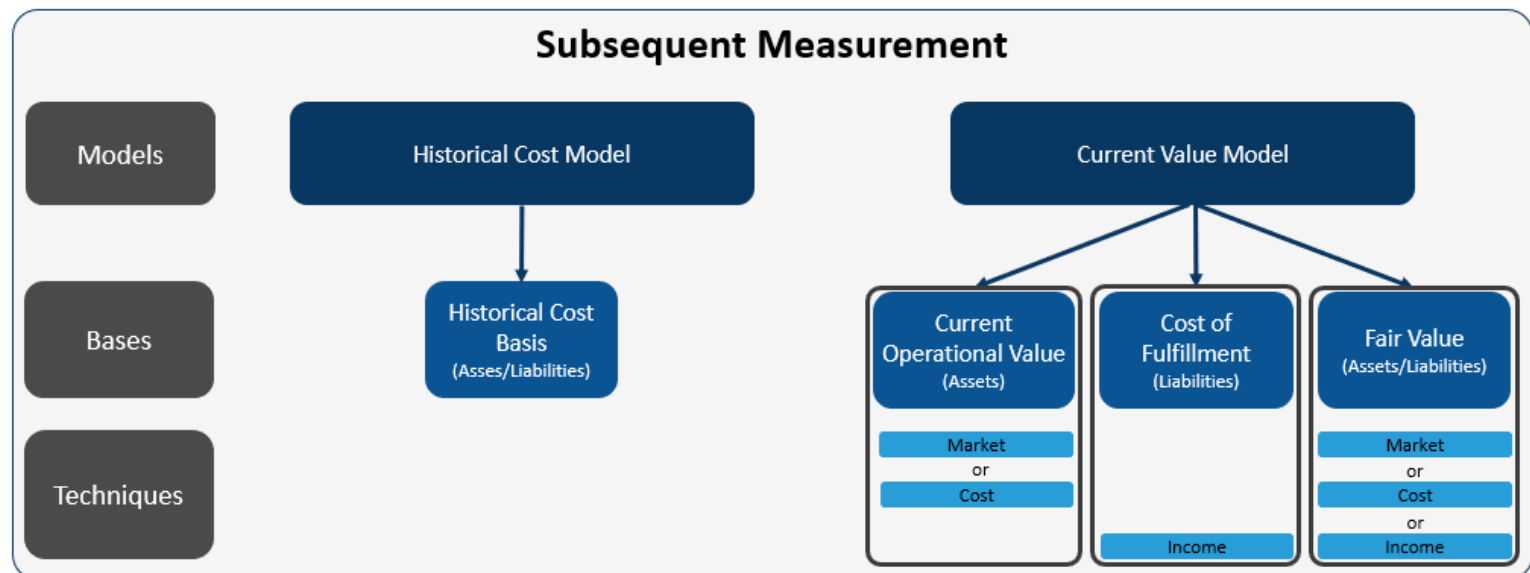
Subsequent Measurement Framework

The subsequent measurement framework explains the relationship between the various components required to estimate the value of an asset or liability. The IPSASB identified three levels of measurement:

Measurement Models. Approaches to present assets or liabilities.

Measurement Bases. Methods to present relevant and faithfully representative information under the model selected.

Measurement Techniques: Methods to estimate the amount at which an asset or liability is presented under the selected measurement basis.



Measurement Bases

Chapter 7 provides guidance on four commonly used measurement bases

Historical Cost

The consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.

Cost of Fulfillment

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Current Operational Value

The amount the entity would pay for the remaining service potential of an asset at the measurement date.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The revised Chapter 7 identifies the measurement bases that are commonly applied in the IPSAS suite of standards. The Conceptual Framework outlines the high-level characteristics of each of the four bases identified measurement basis.

There are separate definitions of historical cost and fair value in the Conceptual Framework. In this 'At A Glance' the definitions have been consolidated for conciseness.

Effective Date and Project History

The IPSASB started using the revised Chapter 7 and the updated Chapters 3 and Chapter 5 when they were approved.

Effective Date

The IPSASB started using the updated chapters of the Conceptual Framework immediately on approval. The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSAS, nor does it override any standards-level requirements. This is consistent with the original 2014 Conceptual Framework, which did not have an effective date.

Project History

To learn more about the project history, and to view the consultation documents and responses, please visit:

<https://www.ipsasb.org/consultations-projects/limited-scope-update-conceptual-framework>