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STAFF QUESTIONS AND ANSWERS
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THE IPSASB'S CONCEPTUAL FRAMEWORK

Insights into the reasons for developing the Conceptual Framework, the development process, its role, its recent updating and its relationship with the IASB's Conceptual Framework.

The Conceptual Framework underpins the development and maintenance of IPSAS and RPGs by the IPSASB. The recent limited scope update has strengthened the Framework and positioned it well for the next phase of IPSASB's activity.

The IPSASB published the *Conceptual Framework for Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014. It provides the principles that underpin the development and maintenance of International Public Sector Accounting Standards (IPSAS), and Recommended Practice Guidelines (RPGs). It also provides the foundation for IPSASB's June 2023 announcement on starting to develop public sector sustainability reporting standards.

In 2019, the IPSASB launched a limited scope update of the Conceptual Framework. The project led to a revised chapter on Measurement and updated chapters on Elements and Qualitative Characteristics.

This Q&A highlights the background to the development of the Conceptual Framework, the role and authority of the Conceptual Framework, the reasons for updating the Conceptual Framework, the main changes resulting from the project, and the Conceptual Framework's relationship to the International Accounting Standards Board's (IASB) Conceptual Framework.

APPENDIX A

Comparison of IPSASB and IASB Conceptual Frameworks

Q1. ***Why did the IPSASB develop a Conceptual Framework?***

Conceptual Frameworks, or their equivalents, underpin the development and maintenance of financial reporting standards by providing the principles that guide standard setters in developing financial reporting requirements and guidance. They aim to ensure that standard setters develop standards a structured way and that standards interact consistently. Conceptual Frameworks also impose accountability on standard setters by making the principles that they apply in developing requirements and guidance transparent and ensuring that they explain the reasons for any diversion from these principles clearly.

In a perfect world a new standard setter would develop and adopt a Conceptual Framework before developing a body of standards. However, the IPSASB had to balance conceptual aspirations with practical considerations. Development of a Conceptual Framework is a highly resource intensive activity. When the International Federation of Accountants (IFAC) Public Sector Committee (PSC), the predecessor to the IPSASB, launched the Standards Program in 1997, it took the view that it could make a major contribution to public financial management by demonstrating its capability to develop standards primarily drawn from the IASB's literature. The PSC therefore focused its initial activity on developing a first suite of standards aligned with IFRS. These standards included those on the presentation of financial information and the determination of accounting policies, changes in accounting estimates and errors. The second suite of standards included those on property, plant and equipment, investment property, and provisions, contingent liabilities, and contingent assets.

The need for a Conceptual Framework appropriate for the public sector was underlined when the IPSASB began to develop requirements and guidance in complex public sector specific areas such as social benefits and non-exchange revenue. In deliberating issues, such as when commitments and obligations give rise to liabilities, the importance of conceptually sound definitions of elements and recognition criteria became apparent.

Q2. ***How was the original version of the Conceptual Framework developed?***

The IPSASB launched the Conceptual Framework project in 2006 as a collaborative endeavor. The IPSASB took a lead role working with several national standard setters with public sector responsibilities and ministries of finance with responsibilities for determining accounting policies for government entities. This indicated the level of global interest in a Conceptual Framework designed specifically for the public sector. This collaboration contributed to IPSASB's first two Conceptual Framework consultation papers.

In 2009 the IPSASB decided to bring development of the Framework in-house. For the next six years the IPSASB devoted increased resources to developing its Conceptual Framework, which dominated the agenda at IPSASB's quarterly meetings.

The IPSASB considered that a full consultative process was necessary in order to obtain the views of global constituents. Between 2008 and 2013 the IPSASB issued four consultation papers and four exposure drafts (ED) on the topics in the Conceptual Framework. The IPSASB also issued an ED on the key characteristics of the public sector. The responses to these documents helped shape the finalized Conceptual Framework.

Q3. ***What is the role and authority of the Conceptual Framework?***

The Conceptual Framework establishes the concepts that underpin general purpose financial reporting by public sector entities that adopt the accrual basis of accounting. It is therefore a key component of IPSASB's literature. However, the Conceptual Framework does not establish authoritative requirements, nor does it override the requirements of IPSAS. Authoritative requirements relating to the recognition, measurement and presentation of other events and activities that are reported in GPFRs are specified in the underlying IPSAS. The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with in IPSASs or RPGs.

Q4. Why did the IPSASB update the Conceptual Framework?

When the IPSASB approved the Conceptual Framework in September 2014 it decided not to give a timeline for reviewing or revising it. The IPSASB felt that it was important to allow the Framework to be applied in practice for a period so that the IPSASB could gain experience in using it in standards development and maintenance and the development of RPGs.

In 2018 the IPSASB had used the Framework for four years and had a sense of its strengths and weaknesses. The IPSASB was particularly concerned that there was a dislocation between the Conceptual Framework's guidance and standards-level requirements, particularly for measurement.

A further factor was a global development. In 2018 the IASB published a revised Conceptual Framework that built on the Conceptual Framework issued in 2010. In particular the revised IASB Conceptual Framework included an updated approach to measurement and revised definitions of certain elements. The IASB also made further amendments related to materiality in 2019.

These factors led the IPSASB to propose a limited scope project to update the Conceptual Framework. This project received considerable support in the 2019-2023 Strategy and Work Plan consultation.

The IPSASB issued two EDs to obtain constituent views on IPSASB's proposals: ED 76, *Conceptual Framework Update, Chapter 7, Measurement of Assets and Liabilities in Financial Statements,* and ED 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements.* The views of respondents were taken into account in finalizing the revised Chapter 7 and updated Chapters 3 and 5.

Q5. What were the main changes that arose from the 2023 limited scope project?

Chapter 7 has been fully revised to better align with the measurement principles throughout IPSAS. There is a new public sector specific current value measurement basis for assets held for operational capacity-current operational value-and the introduction of fair value. Some measurement bases that were in the 2014 Conceptual Framework have been deleted, such as Replacement Cost, Market Value and Cost of Release. The changes are in harmony with the recently issued IPSAS 46, *Measurement*.

The revised chapter also includes a Subsequent Measurement Framework. This explains how the measurement components applied to estimate the value of an asset or liability interact. The Subsequent Measurement Framework distinguishes measurement models, measurement bases and measurement techniques.

Chapter 5 includes revised definitions of an asset and a liability. Guidance on these definitions has been restructured to better align with the components of the definitions, making the guidance more user-friendly. There is more detailed guidance in certain areas. There are also new sections on Unit of Account and Executory Contracts that are Equally Unperformed by both parties.

In Chapter 3 there is new guidance on the role of prudence in supporting neutrality in the context of faithful representation. However, prudence has not been added as a separate qualitative characteristic in its own right.

There is also the significant addition of 'obscuring' information to 'misstating' and 'omitting' information as factors relevant to materiality judgments. This is an acknowledgement that, for example, voluminous disclosures of immaterial items can actually have an adverse impact on the usefulness of financial reports.

Q6. *How does the IPSASB Conceptual Framework Relate to the IASB's Conceptual Framework?*

Neither the original project nor the limited scope update of the Conceptual Framework sought to "align" with the International Accounting Standards Board's Conceptual Framework. This approach gave the IPSASB space to develop guidance that reflects that the primary objective of the public sector entities for which the IPSASB is developing requirements and guidance: to deliver services to the public, rather than making profits and generating a return on equity to investors.

*The Preface to the Conceptual Framewor*k identifies key characteristics of the public sector that the IPSASB considered in the development of the Framework. These include the nature and purpose of assets and liabilities in the public sector, the volume and financial significance of non-exchange transactions and the importance of the approved budget.

Nevertheless, the IPSASB considered the IASB's Conceptual Framework, which was issued in 2010 and revised in 2018, an especially important touchstone. The IPSASB is also mindful of the risks of unwarranted differences between the IPSASB Framework and the IASB Framework on the standards level. In a number of jurisdictions profit-seeking public sector entities adopt IFRS; unnecessary differences between IPSAS and IFRS can create complications on consolidation – this is sometimes known as "the mixed group issue." The IPSASB therefore carefully evaluated differences before making decisions. Some differences are attributable to the fact that certain chapters in IPSASB's Framework relate to broader general purpose financial reporting rather than just the financial statements. Appendix A identifies the differences between the IPSASB and IASB Conceptual Frameworks following the revisions to Chapter 7, and the updating of Chapter 3 and Chapter 5.

Looking Forward

As IPSASB refocuses its financial reporting work program from IPSAS development to IPSAS maintenance and establishes both an interpretations capability and an approach to post-implementation reviews the Conceptual Framework will continue to be a cornerstone of IPSASB's literature. The core elements in the Conceptual Framework, such as identifying key characteristics of a public sector entity and materiality, will also be key in guiding IPSASB's development of its public sector sustainability reporting standards.

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Comparison of IPSASB and IASB Conceptual Frameworks

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Preface – Highlights characteristics of the public sector that the IPSASB considered in the development of the Conceptual Framework: • The Volume and Financial Significance of Non-Exchange Transactions • The Importance of the Approved Budget • The Nature of the Public Sector and the Longevity of the Public Sector • The Nature and Purpose of Assets and Liabilities in the Public Sector • The Regulatory Role of Public Sector Entities • Relationship to Statistical Reporting	No equivalent section. The introductory section on the *Status and Purpose of the Conceptual Framework* states that the Framework contributes to the stated mission of the IFRS Foundation and of the IASB, which is part of the IFRS Foundation, to develop Standards that bring transparency, accountability, and efficiency to financial markets around the world	No equivalent section. Reflects the different constituencies for which the two global standard setters are developing and maintaining standards.
Role and Authority of the Conceptual Framework (Chapter 1) –role is to establish the concepts that underpin general purpose financial reporting. The Conceptual Framework does not establish authoritative requirements. The Conceptual Framework applies to financial reporting by public sector entities that apply accrual-basis IPSAS.	***Status and Purpose of the Conceptual Framework (Introductory Section)–*** describes the objective of, and the concepts for, general purpose financial reports, Nothing in the Conceptual Framework overrides any Standard or any requirement in a Standard. Acknowledges that to meet the objectives of financial reporting the IASB may sometimes specify requirements that depart from aspects of the Conceptual Framework. The Conceptual Framework may be revised from time to time based on Board's experience of working with it.	IPSASB Framework distinguishes reports that some users may have the authority to require to meet their specific information needs (special purpose financial reports) and general purpose financial reports. IPSASB Framework does not explicitly state that the IPSASB might depart from the Conceptual Framework in specifying requirements at the standards-level, although this is implicit. IPSASB Framework is silent on revisions to the Conceptual Framework and their timing. Some points discussed in the IASB's Introductory section are addressed in Chapter 2 of the IPSASB Conceptual Framework (see below).

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Objectives and Users of General Purpose Financial Reporting (Chapter 2) – provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes. Users are service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.	***The Objective of General Purpose Financial Reporting (Chapter 1)*** – provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity.	IPSASB Framework has specific objective emphasizing importance of accountability in the public sector. The IASB Framework acknowledges the assessment of management's stewardship of the entity's economic resources as an aspect of decision making. Different users reflecting different objectives of entities for which the standard setters are developing and maintaining standards.
Qualitative Characteristics (Chapter 3) – relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.	***Qualitative Characteristics of Useful Financial Information (Chapter 2)*** – If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting.	While the qualitative characteristics (QC) are the same IPSASB Framework does not distinguish fundamental and enhancing characteristics. IASB Framework does not discuss materiality and balancing of QCs as pervasive constraints. IASB Framework considers materiality an aspect of the relevance QC.

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Reporting Entity (Chapter 4) – A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFRs. A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity. GPFRs encompass financial statements and information that enhances, complements, and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period.	***Financial Statements and the Reporting Entity (Chapter 3) –*** A reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity. Financial statements are prepared for a reporting period and provide financial information about the reporting entity's assets, liabilities, equity, income, and expense.	IASB Framework has a section on the Objective and Scope of Financial Statements. IASB has sections on Reporting Period and Perspectives Adopted in Financial Statements (IPSASB scope is broader — general purpose financial reports.

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Elements in Financial Statements (Chapter 5) – The elements are assets, liabilities, revenue, expense, ownership contributions and ownership distributions. This does not preclude IPSASs from requiring or allowing the recognition of other resources or obligations that do not satisfy the definition of these elements when necessary to better achieve the objectives of financial reporting.	***The Elements of Financial Statements (Chapter 4) –*** Financial statements elements are (a) assets, liabilities, and equity, which relate to a reporting entity's financial position and (b) income and expenses, which relate to a reporting entity's financial performance.	IPSASB Framework defines ownership contributions and ownership distributions, which are not defined in IASB Framework. IPSASB Framework does not define equity, which is defined in IASB Framework. The definitions of an asset are very similar. However, the IASB description of an economic resource refers to a 'right that has the potential to produce economic benefits.' The revised IPSASB description of a resource refers to 'a right to either service potential or the capability to generate economic benefits, or a right to both.' The definitions of a liability are very similar. The IASB definition of a liability is 'a present obligation of the entity to transfer an economic resource as a result of past events'; the IPSASB definition is 'a present obligation of the entity to transfer resources as a result of past events.' IPSASB Framework does not relate elements to specific financial statements. IPSASB Framework includes other economic phenomena-other resources and other obligations. These are not elements. IASB Framework has a section on executory contracts. IPSASB Framework refers to binding arrangements that are equally unperformed. IASB Framework has section on 'Substance of contractual rights and contractual obligations.' No equivalent section in IPSASB Framework.

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Recognition in Financial Statements (Chapter 6) – Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs. Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements, and removing the item if such changes have occurred	***Recognition and Derecognition (Chapter 5) –*** Recognition is the process of capturing for inclusion (in monetary value and words) in the statement of financial position or the statement of financial performance an item that meets the definition of one of the elements of financial statements. Derecognition is the removal of all or part of a recognised asset or liability from an entity's statement of financial position.	IASB Framework relates existence uncertainty and low probability of an inflow or outflow of economic benefits to relevance and measurement uncertainty and other factors to faithful representation. IPSASB Framework does not relate existence uncertainty and measurement uncertainty to particular QCs.
Measurement of Assets and Liabilities in financial statements (Chapter 7) – The objective of measurement is 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.	***Measurement (Chapter 6) –*** Quantifying elements recognised in financial statements in monetary terms requires the selection of a measurement basis which is an identified feature, such as historical cost or fair value, of an item being measured.	IASB Framework does not have a measurement objective. IASB Framework includes sections on 'Information provided by particular measurement bases', and on 'Factors to consider when selecting a measurement basis.' IPSAS Framework has a measurement objective based on provision of information on operational capacity, financial capacity, and cost of services. IASB Framework includes current cost as a current value measurement basis, which can be ascertained through direct or indirect inputs. IPSAS Framework includes current operational value as a current value measurement basis for assets primarily held for operational capacity. IASB Framework has sections on 'Measurement of equity' and 'Cash-flow-based measurement techniques.' IASB chapter is more detailed; for example, IASB chapter includes a matrix summarizing information provided by measurement bases.

IPSASB Conceptual Framework	IASB Conceptual Framework	Differences (following Limited Scope Update)
Presentation in General Purpose Financial Reports (Chapter 8) – Presentation is the selection, location and organization of information that is reported in the GPFRs. Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information. Decisions on selection, location and organization of information are made in response to the needs of users. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a report, guide presentation decisions for that report.	***Presentation and Disclosure (Chapter 7) –*** The reporting entity communicates information about its assets, liabilities, equity, income, and expenses by presenting and disclosing information in its financial statements.	Different scope. IPSASB Framework has a wider scope encompassing financial reports outside the core financial statements. IASB scope is financial statements.
The IPSASB Conceptual Framework does not currently have a chapter on concepts of capital and capital maintenance.	***Concepts of Capital and Capital Maintenance (Chapter 8) –*** selection of the appropriate concept of capital by an entity based on the needs of the users of its financial statements. A financial concept of capital equates capital to net assets or equity of the entity. A physical concept regards capital as the productive capacity of the entity.	