



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

May 31, 2022

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Exposure Draft 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*

We are pleased to provide comments on the Exposure Draft 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements* issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments on the ED 81 are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Kemisha Soni)
Chairperson and Central Council Member
Committee on Public & Government Financial Management (CP&GFM)
The Institute of Chartered Accountants of India
Ph: 0120-3045985 (CP&GFM Secretariat)
E-mail Id: caslb@icai.in; cpf.aslb@icai.in;

Encl.: As above



Exposure Draft (ED) 81, Proposed Update to Conceptual Framework (Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements)

Specific Matter for Comment 1: Prudence

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A-BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

ICAI's views:

We agree with the IPASB's guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Prudence is an important aspect of achieving neutrality in financial reporting, however, it also stands on its own as a key consideration when exercising judgement separate from considerations of neutrality. Also, IPSASB's concept of prudence focuses on caution rather than conservatism. Such fact may also be considered to be explicitly mentioned appropriately in Basis for Conclusions.

Although 'prudence' means exercising good judgement but it is generally misunderstood as conservatism accounting concept that prescribes to recognise all probable losses immediately but defer the recognition of profits where uncertainty in terms of value and timing exists, however, it may result in understatement/overstatement of assets/liabilities/income/expenses. IPSASB has clarified the notion of prudence in detail distinguishing it from the concept of conservatism by mentioning that the caution should be exercised in making judgment for recognition of both profit or losses and it does not allow for understatement/overstatement of assets/ liabilities/ income/ expenses.

In addition, IPSASB also need to reconsider whether introducing the notion of prudence would result any variation in 'recognition' criteria given in the IPSAS.

Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgements

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgements. The reasons for this addition are in paragraphs BC3.32A and BC3.32B.

Do you agree with the addition of obscuring information to factors relevant to materiality judgements? If not, why not?



ICAI's views:

We agree with the IPSASB for addition of obscuring information to factors relevant to materiality judgements. However, it is suggested to explain either the term 'obscuring information' or its example appropriately in the conceptual framework or its basis for conclusion for more clarification.

In addition, the definition/concept of 'materiality' is also covered by IPSAS 1, IPSAS 3 and so on. We are of the view that there should be consistency in the definition of 'materiality'. It is also suggested to provide definition of common items like materiality at one place.

Specific Matter for Comment 3: Right-Based Approach to Resource

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

ICAI's views:

We agree with the rights-based approach inserted by IPSASB to the description of resources in the context of an asset.

The term right' encompasses not just legal rights but also access that an entity controls in other ways and the rights must have service potential or capability to generate economic benefits, and be controlled by the entity, to satisfy the definition of assets.

Specific Matter for Comment 4: Definition of a Liability

The revised definition of a liability is in paragraph 5.14:

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

The reasons for the revised definition are in paragraphs BC5.18A-BC5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

ICAI's views:

We agree with the revised definition of a liability that focus on obligations, transfer of resources and past events.



Specific Matter for Comment 5: Guidance on the Transfer of Resources

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A-BC5.19D.

Do you agree with this guidance? If not, how would you modify it?

ICAI's views:

We agree with the IPSASB's guidance on transfer of resources in the context of liabilities.

Paragraph 5.16B prescribes that an obligation can meet the definition of liability even if the probability of a transfer of resources is low. Nevertheless, the low probability might affect decisions about what information to provide about the liability and how to provide the information. However, similarly, a right can also meet the definition of asset even if the probability that it will produce economic benefits is low. Paragraph 4.15 of IASB's Conceptual Framework (Revised in 2018) may also be considered to be appropriately covered here also.

Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. The guidance is in paragraphs 5.14A-5.17D. Paragraph BC5.18H explains the reason for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

ICAI's views:

We agree with the restructured guidance on liabilities prescribed in paragraphs 5.14A-5.17D. However, it is suggested to clarify paragraph 5.17A in detail with the help of example (if possible) for more clarification. (refer paragraphs 4.44-4.46 of IASB's Conceptual Framework (Revised in 2018))

Specific Matter for Comment 7: Unit of Account

The IPSASB has added a section of Unit of Account in paragraphs 5.26A-5.26J. The reasons for proposing this section are in paragraphs BC5.36A-5.36C.

Do you agree with the addition of a section of Unit of Account? If not, how would you modify it and why?



ICAI's views:

Although we agree with the additions made by the IPSASB with respect to unit of account but it is still felt that this concept can be better addressed with the help of specific examples at Standards level.

Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D-BC5.36F.

Do you agree that:

- (a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so
- (b) Such guidance should be included in the Unit of Account section, rather than in a separate section?

If you do not agree, please give your reasons.

ICAI's views:

- (a) We agree that the guidance on principles for binding arrangements that are equally unperformed may be covered in Conceptual Framework.
- (b) It is suggested that such guidance should be included under separate section appropriately instead of covering the same under the heading 'Unit of Account'. Paragraphs 5.26I and 5.26J does not seem pertaining to such guidance rather it pertains to the concept of unit of account. Placing of paragraphs 5.26I and 5.26J needs to be changed appropriately.

Other Comments

- Paragraphs 3.18 and 3.19 are same. Paragraph 3.19 does not pertain to the concept of timeliness. Paragraph 3.19 of existing IPSASB's Conceptual Framework may be reiterated here.
- Paragraphs 3.22 and 3.23 are same. Paragraph 3.23 of existing IPSASB's Conceptual Framework may be reiterated here that talks why comparability differs from uniformity.
- Main objective of public sector entities is to provide services. Therefore, it is suggested to incorporate service-based examples for explaining principal-agent transactions (say in paragraph 5.12A) in the context of public sector



entities, e.g., sales taxes collected on behalf of taxing authorities amongst different levels of Government.

- Some language modifications may be considered to be made in the last line of paragraph 3.30 (try to cover in different way instead of using the term “if at all” that is often used for something that is unlikely to happen or rarely happens).
- Heading “*Conditional and Unconditional Obligations*” should be shifted below paragraph BC5.20. Earlier placing was correct. (refer existing IPSASB’s Conceptual Framework)
- Some typo errors in basis for conclusions section are as follows that needs to be corrected:
 - Paragraph no. BC5.18C (a) ‘is’ to be changed to ‘as’ in the third line
 - Paragraph no. BC5.30 is written twice.
 - Superscript number of footnote 2 at page no. 57 (in the end of Paragraph BC 5.60)