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The International Public Sector Accounting Standards Board

277 Wellington St. West
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Submission via website

30 May 2022

Dear Ross

**COMMENTS ON EXPOSURE DRAFT ON *PROPOSED CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 3, QUALITATIVE CHARACTERISTICS AND CHAPTER 5, ELEMENTS IN FINANCIAL STATEMENTS* (ED 81)**

We thank you for the opportunity to provide comments on ED 81.

We issued ED 81 for comment in our jurisdiction. We arranged roundtable discussions (three) to solicit views from preparers, auditors, technical experts, academics, consultants, professional bodies, and users. We also received two written comment letters on ED 81. The comments received during the local consultation have been used to develop our response. The views in the comment letter are those of the Secretariat of the ASB and not the Board.

We are generally supportive of the amendments and alignment to the Conceptual Framework of the International Accounting Standards Board (IASB). Some stakeholders are however concerned about the approach and reasoning for certain amendments. They were of the view that it is inappropriate to amend the Conceptual Framework to suit current and upcoming Standards-level guidance. The Conceptual Framework should not consider specific Standards in its development or amendment.

Our specific comments on the proposals in ED 81 are outlined in Annexure A (responses to specific matters for comment) and Annexure B (other comment).

Should you have any questions regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely

Jeanine Poggiolini

Chief Executive

**Annexure A**

**SPECIFIC MATTERS FOR COMMENT**

| **Specific Matter for Comment 1: Prudence** |
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| 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 to BC3.17E explain the reasons for this guidance. Do you agree with this approach?<br><br>If not, why not? How would you modify these paragraphs? |

**We support the proposal to include prudence as supporting neutrality.**

We agree that preparers should be explicitly reminded of the role of prudence in supporting neutrality.

We believe it would be important for the IPSASB to consider prudence when Standards are developed or amended. The concept may not have been used in a neutral way in the past and may have focussed on not overstating assets or understating liabilities. An example is the considerations for contingent assets and contingent liabilities in IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets.*

| **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.<br><br>Do you agree with the addition of obscuring information to factors relevant to materiality judgements? If not, why not? |

**We support the proposal to include obscuring information as a factor relevant to materiality judgements.**

We look forward to the IPSASB's project to develop a materiality practice statement. Preparers are uncertain how the materiality guidance in the Conceptual Framework and requirements in IPSAS 1 on *Presentation of Financial Statements* and IPSAS 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* should be applied. Unnecessary information is included in the financial statements to avoid audit findings on completeness of information.

We recommend that an explanation is included to assist stakeholders to understand the meaning of "obscuring" information, and guidance on assessing whether or when information would obscure other information in the financial statements. Preparers found the brief explanation in the basis for conclusions (BCs) insufficient to fully understand the concept. If not included in the Conceptual Framework, such guidance may be suitable for the materiality practice statement.

We support the related amendment in the Conceptual Framework to soften the threshold for determining if information is material, to "could reasonably be expected to influence". We note that this change is closer aligned to auditors' application of materiality.

**Specific Matter for Comment 3: Rights-based approach to a resource**

Paragraphs 5.7A to 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 to BC5.3F.

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

**We support the principle of following a rights-based approach to a resource.**

We recommend that the role governments' sovereign powers and rights play in identifying resources be explained more clearly. No changes are proposed to the BCs where this role is currently explained. It would be useful for the IPSASB to note in the BCs that the change in approach should not change governments' assessments of their resources resulting from sovereign powers and rights.

A minority of stakeholders do not support the rationale for the change. They view it as a change to accommodate Standard-level guidance. In their view, the Conceptual Framework should establish the basic principles and complex matters should be dealt with at Standards-level.

**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 resources as a result of past events.*

The reasons for the revised definition are in paragraphs 5.18A to 5.18H.

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

**We support the revised definition of a liability to refer to a transfer of resources instead of an outflow of resources.**

An outflow of resources may give the impression that liabilities are settled in cash only. Liabilities are also settled in goods or services.

A minority of stakeholders do not support the change to the definition in the Conceptual Framework and related guidance, for the reasons set out in Specific Matter for Comment 5.

**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 to 5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A to BC5.19D.

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

**We support the guidance included on what constitutes a transfer of resources.**

Refer to general comment 2 on accounting by principals and agents for comment on paragraph 5.16F.

A minority of stakeholders do not support the change to the definition and related guidance in the Conceptual Framework for the following reasons:

- The considerations from the IASB's Conceptual Framework included in paragraphs 5.16A to 5.16E, and the explanation in BC5.19D is better suited at Standards-level.

- Recognition considerations should not include subsequent measurement or derecognition events (particularly paragraphs 5.16D and E and BC5.19D).
- The revised definition will not result in more or fewer liabilities being identified and recognised by public sector entities.

**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. This guidance is in paragraphs 5.14A to 5.17D. Paragraph BC5.18H explains the reasons for this restructuring.

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

**We support the restructuring of guidance on liabilities.**

We support the inclusion of paragraph 5.17A. It responds to a concern identified that the change in the definition to a transfer of resources may give the impression that the recognition of a liability has been brought forward to an entity entering into an arrangement. To further embed this principle, we recommend that a link is included to the guidance on binding arrangements that are equally unperformed.

**Specific Matter for Comment 7: Unit of account**

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

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

**We support the inclusion of guidance on unit of account in the Conceptual Framework.**

It is important for the Conceptual Framework to provide the principles on unit of account, and we are pleased that these principles also apply to General Purpose Financial Reports. Up to now the concept has been dealt with indirectly through materiality, and standards-level guidance.

We recommend that paragraph BC5.36C clarifies that authoritative guidance on unit of account will continue to be discussed in the Standards, and the high-level guidance in the Conceptual Framework is not intended to change existing guidance. The Conceptual Framework is not authoritative.

A minority of stakeholders question the inclusion of the guidance and are concerned that the guidance is rules-based, instead of principles-based. They believe the parts of the guidance that are useful [5.26D(b) and 5.26E] are already included elsewhere in the Conceptual Framework [see 5.7E and 3.35 to 3.40 on the cost-benefit constraint].

**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 to 5.26H of the section on Unit of Account The explanation is at paragraphs BC5.36D to 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.

**We support the inclusion of guidance on binding arrangements that are equally unperformed, but do not support the placement of the guidance.**

We believe that unit of account is not the only consideration for binding arrangements that are equally unperformed. Such arrangements should be discussed in a broader context in a separate section, and should not be included in the section on unit of account.

The guidance in the Conceptual Framework should be discussed in a neutral way. We urge the IPSASB to ensure it is not positioned for future Standards-level guidance, particularly on revenue. This would be inappropriate since the IPSASB is still discussing assets and liabilities from binding arrangements in a revenue transaction and we believe re-exposure is likely.

**Annexure B**

## GENERAL COMMENT

### 1. Definition of an asset

Proposal: The definition of an asset now reflects that an asset may arise from past events. We note that the IPSASB considered that plural past events, rather than a singular past event, better conveys that resources can accumulate over time due to an initial and subsequent past events.

Issue: Stakeholders questioned whether there could be instances where this change unintentionally changes the recognition point for some assets, resulting in entities inappropriately recognising an asset earlier.

Recommendation: It would be useful to clarify that the change captures existing ways in which assets are acquired and does not intend to change the recognition point.

### 2. Guidance on accounting by principals and agents

Proposal: The guidance on assets and liabilities respectively include proposed guidance on recognising assets and liabilities in principal-agent arrangements. An agent would not recognise resources of the principal in its custody and would also not recognise related liabilities.

Issue: The guidance may result in agents not recognising assets (and related liabilities) when all the elements of the definitions are met. For example, in our jurisdiction an agent may have temporary custody of a principal's resources that are indistinguishable from other resources of the agent, such as cash in the agent's bank account or inventory in a warehouse. In this instance, all the elements of the definition of an asset are met and the agent should recognise an asset, and a related liability for the cash/inventory to be returned to the principal or third-party beneficiaries.

We further wish to highlight a potential inconsistency with IPSAS 2 on *Cash Flow Statements*, paragraphs .32 and .33. An agent may under certain circumstances report cash flows from agency services that the agent controls on a net basis. Otherwise, the cash flows would be reported on a gross basis (i.e. inflows and outflows are reported separately). The cash flow statement information may therefore be inconsistent with the proposed guidance in the Conceptual Framework where the balances would not be recognised.

We note the proposal is aligned with the IASB's Conceptual Framework. However, we believe that there is an argument in the public sector for an agent to recognise assets and liabilities under certain circumstances, to support accountability and serve the public interest.

Recommendation: The appropriateness of the guidance should be reconsidered, as well as the consistency with IPSAS 2.

### 3. Differences between the Conceptual Framework and Standards-level guidance

Issue: There are divergent views about whether differences between the Conceptual Framework and Standards-level guidance are acceptable. Some stakeholders prefer that the principles in the Standards are aligned to the Conceptual Framework. Others accept differences given the role of the Conceptual Framework – it is a tool for a standard-setter to develop Standards, and may be used in specific circumstances by preparers to develop accounting policies. Standards deal with specific types of transactions or events, and guidance may differ from the Conceptual Framework to provide useful information to users about those specific types of transactions or events.

Recommendation: We recommend that the IPSASB develops communication material on the authority and use of the Conceptual Framework. The material could furthermore communicate to users how the IPSASB intends dealing with differences between the Conceptual Framework and Standards-level guidance, if at all.