International Public Sector Accounting Standards Board

529 Fifth Avenue

New York, NY 10017

United States of America

31 May 2022

Dear Sir/Madam,

Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission – ED81 – Conceptual Framework Update (Qualitative Characteristics and Elements in Financial Statements)

In response to your request for comments on the Conceptual Framework Update, attached is the comment letter prepared by CAA and TAS. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in IAS, IFRS and IPSAS.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

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Our comments are as follows:

Question 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 and BC3.17E explain the reasons for this guidance. Do you agree with this approach?
Response: We agree with this position because if prudence ensures that assets and revenues are not overstated, that liabilities and expenses are not understated, and equally that assets and revenue are not understated, and liabilities and expenses are not overstated, then prudence supports the quality of neutrality in the context of faithful presentation. The only caution is to not be too prescriptive with guidance as users may start to apply it narrowly and with a 'checklist mentality'.
Question 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 judgments. 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 judgments? If not, why not?
Response: We agree with the addition of 'obscuring information' as a factor relevant to assessing materiality in that too many unnecessary disclosures may obscure important financial information which may then affect the decisions that users make after reading the financial statements. This is especially true in third world countries where a lot of boilerplate reporting occurs. So many material disclosures are obscured by the sheer amount of unnecessary information being disclosed in financial statements.
Question 3—Rights-Based Approach to a 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?
Response: We agree with the rights-based approach to a resource as it improves comparability of financial statements between entities with different forms of rights attached to similar underlying assets contributing in a similar way to the financial performance of the different entities.
Question 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-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?
Response: We agree with the revised definition because the term 'transfer' denotes a deliberate action by the entity in settling an obligation as opposed to an 'outflow' of resources which could denote an unintentional loss of resources. We also agree because there can be many past events which give rise to a liability.
Question 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?
Response: We agree with the guidance on' transfer of resources' because it acknowledges that the entity with an obligation to transfer resources can fulfil its obligations in a variety of ways including negotiating release, paying cash, and providing a service or delivering goods. An obligation to transfer resources does not necessarily have to be always fulfilled by paying cash for it to be recognized as a liability.
Question 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-5.17D. Paragraph BC5.18H explains the reasons for this restructuring. Do you agree with this restructuring? If not, how would you modify it?
Response: We agree with the revised structure of the guidance on liabilities because it reflects the three major components of a liability, i.e. (i) Obligation (ii) Transfer of resources (iii) Link to one or more past events The guidance helps in understanding the revised definition of a liability and how to apply it.
Question 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-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 agree with the addition of the section on Unit of Account which provides essential information for recognition and measurement of rights and obligations which are critical in constituting the elements in the financial statements.
Question 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.
Response:

Binding arrangements that are equally unperformed create rights and obligations which may change as the parties perform their obligations. Guidance is required so that there is comparability of accounting treatments binding arrangements that are equally unperformed.

We also agree that there is no need for a separate section on binding arrangements that are equally unperformed in the Conceptual Framework, since guidance on Unit of Account already captures accounting for rights or group of rights, and for obligations or group of obligations.