

IPSASB ED-81 Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

Specific Matters for Comment	Relevant Paragraphs	Comments
<p><i>Specific Matter for Comment 1: Prudence</i></p> <p>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.</p> <p>Paragraphs BC3.17A-BC3.17E explain the reasons for this guidance. <i>Do you agree with this approach? If not, why not? How would you modify these paragraphs?</i></p>	<p><i>Paragraph 3.14A:</i> Neutrality is supported by the exercise of prudence. 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. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.</p> <p><i>Paragraph 3.14B:</i> The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.</p> <p><i>Paragraph BC3.17A:</i> The International Accounting Standards Board (IASB) revised its approach to prudence in the <i>Conceptual Framework for Financial Reporting</i>, published in 2018 (the IASB 2018 Conceptual Framework). The IASB did not include prudence as a qualitative characteristic, but, in the context of faithful representation, explained that “neutrality is supported by the exercise of prudence” and that “prudence is the exercise of caution when making judgments under conditions of uncertainty”. The IASB characterized the approach adopted in the 2018 Conceptual Framework as “cautious prudence”.</p> <p><i>Paragraph BC3.17B:</i> The IPSASB also noted that prudence had been the subject of much discussion in the European Public Sector Accounting Standards project.</p> <p><i>Paragraph BC3.17C:</i> Because of the above developments the IPSASB reconsidered the approach to prudence in the 2014 Conceptual Framework, in particular whether prudence should be included as a qualitative characteristic in its own right or whether guidance on prudence should be included in the context of neutrality and faithful representation.</p>	<p>We agree with the proposed approach. This is consistent with the approach of the IASB in its Conceptual Framework.</p>

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	<p>Paragraph BC3.17D: The IPSASB considered that prudence is insufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. Practical application of the IPSASB Conceptual Framework has not identified that the non-inclusion of prudence as a qualitative characteristic is problematic.</p> <p>Paragraph BC3.17E: The IPSASB acknowledged the case for retaining the approach in the 2014 Conceptual Framework on the grounds that an allusion to, and discussion of, prudence, adds little to the notion of neutrality, which itself conveys of a lack of bias. However, the IPSASB concluded that clarifying that prudence entails caution in assessing uncertainty in the measurement of all elements would be beneficial and would respond to those who view the absence of references to prudence as a risk. The IPSASB is firmly of the view that caution should be applied consistently rather than focusing disproportionately on assets and revenue. The IPSASB therefore decided to include an explanation that, in the context of faithful representation “neutrality is supported by the exercise of prudence” and that “prudence is the exercise of caution when making judgments under conditions of uncertainty”. This is consistent with the approach of the IASB in its 2018 Conceptual Framework.</p>	
<p>Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgments</p> <p>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.</p> <p><i>Do you agree with the addition of obscuring information to factors relevant to materiality judgments? If not, why not?</i></p>	<p>Paragraph 3.32: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s GPFs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. Where an entity judges that a material item is not separately displayed on the face of a financial statement (or displayed sufficiently prominently) an entity considers disclosure.</p> <p>Paragraph BC3.32A: In 2018 the IASB amended IAS 1, <i>Presentation of Financial Statements</i>, and IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendments clarified the definition of material in order to resolve difficulties that entities experience in making materiality judgements when preparing financial statements, and to align the definitions in both standards. Because of these changes the IASB made minor, but significant, amendments to <i>Chapter 2, Qualitative Characteristics of Useful Financial Information</i>, of its 2018 Conceptual Framework. First, an</p>	<p>We agree with the addition of obscuring information to factors relevant to materiality judgments.</p>

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	<p>amendment complemented the guidance that information is material if omitting or misstating it could influence decision making with a reference to “obscuring” information. A second amendment softened the threshold for determining that information is material.</p> <p>Paragraph BC3.32B: In its Limited Scope Update project initiated in 2020 the IPSASB considered both changes in the context of public sector general purpose financial reporting. The IPSASB concluded that the reference to “obscuring information” is relevant to the public sector as it suggests that, amongst other practices, the inclusion of immaterial disclosures can have a negative impact on users, rather than just being unnecessary. This is a relevant consideration for both the general purpose financial statements and other GPFs. The IPSASB also concluded that modifying the wording on adversely influencing users by adding the words “reasonably expected to influence” imposes a more realistic expectation on preparers’ assessments of materiality. The IPSASB therefore decided to adopt these changes in its Conceptual Framework and amended paragraph 3.32 accordingly.</p>	
<p>Specific Matter for Comment 3: Rights-Based Approach to a Resource</p> <p>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.</p> <p>Do you agree with this proposed change? If not, why not?</p>	<p>Paragraph 5.7A: Rights to service potential or to the capability to generate economic benefits take many forms, including:</p> <p>(a) Rights that correspond to an obligation of another party (see paragraph 5.16C), for example:</p> <ul style="list-style-type: none"> (i) Rights to receive cash; (ii) Rights to receive goods or services; (iii) Rights to exchange resources with another party on favourable terms. Such rights include, for example, a forward contract to buy a resource on terms that are currently favourable; and (iv) Rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs (see paragraph 5.16A). <p>(b) Rights that do not correspond to an obligation of another party, for example:</p>	<p>We agree with the proposed change to reflect a rights-based approach to the description of resources in the context of an asset.</p>

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	<p>(i) Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or right to benefit from a leased object; and</p> <p>(ii) Rights to use intellectual property.</p> <p>Paragraph 5.7B: Many rights are established by binding arrangement, legislation, or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument such as a student loan, or from owning software or the right to use intellectual property. However, an entity might also obtain rights in other ways, for example:</p> <p>(a) By acquiring or creating know-how that is not in the public domain, such as a traffic management plan, or:</p> <p>(b) Through an obligation of another party that arises because that other party has little or no realistic alternative to avoid a transfer of resources (see paragraph 5.15).</p> <p>Paragraph 5.7C: Some services, for example, employee services and services-in-kind are received and immediately consumed. An entity's capability to obtain the service potential or economic benefits produced by such services exists very briefly until the entity consumes the goods and services.</p> <p>Paragraph 5.7D: Not all of an entity's rights are assets of that entity-to be assets of the entity, the rights must (i) have service potential or economic benefits beyond those available to all other parties (see paragraphs 5.8-5.10) and (ii) be controlled by the entity (see paragraphs 5.11-5.12). For example, rights available to all parties without significant cost for instance, rights of access to public goods that are controlled by other entities, such as public rights of way over land controlled by other entities, or know-how that is in the public domain are typically not assets for the entities that hold these rights.</p> <p>Paragraph 5.7E: In principle, each entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset (see paragraphs 5.26A-5.26J). For</p>	
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	<p>example, legal ownership of a physical object may give rise to several rights, including a right to:</p> <ul style="list-style-type: none">(a) Use the object;(b) Sell rights over the object; and(c) Pledge rights over the object. <p>Paragraph 5.7F: In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.</p> <p>Paragraph 5.7G: The relationship between sovereign rights, resources and an asset is discussed in paragraph 5.13.</p> <p>Paragraph BC5.3A: The 2014 Conceptual Framework distinguished service potential and the capability to generate economic benefits that arise directly from legal ownership of the resource itself from service potential and the capability to generate economic benefits that arise from other rights to use the resource.</p> <p>Paragraph BC5.3B: The IASB 2018 Conceptual Framework considered but decided not to make the distinction outlined in paragraph BC5.3A. The IASB took the view that “ownership of a physical object arises because of rights conferred by law and that, although they differ in extent, the rights conferred by full legal ownership of a physical object and by a contract to use an object for 99% (or 50% or even 1%) of its useful life are all rights of one kind or another”. The IASB also considered that there may be inconsistencies of what constitutes legal ownership in different jurisdictions or at different dates. In summary, the IASB guidance reflects a view that legal ownership is a particular form of right rather than a separate phenomenon.</p> <p>Paragraph BC5.3C: The IPSASB acknowledged the view that physical ownership gives rise to a specific type of control and that this should be reflected conceptually, and that, from an accountability perspective a conceptual approach which might lead to underlying assets, not being</p>	
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	<p>recognised risks, not meeting the qualitative characteristics of understandability.</p> <p>Paragraph BC5.3D: However, on balance the IPSASB decided to adopt a more overtly rights-based approach. In particular, the IPSASB found the view that legal ownership is a type of right rather than a separate phenomenon persuasive.</p> <p>Paragraph BC5.3E: The IASB Conceptual Framework acknowledged that in many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. The IPSASB inserted paragraph 5.7F providing guidance that describing the set of rights as the physical item will often provide a faithful representation of those rights in the most concise and understandable way.</p> <p>Paragraph BC5.3F: The IPSASB considered whether it should augment the guidance on a resource with guidance drawn from the IASB 2018 Conceptual Framework. The IPSASB decided that the following guidance should be added on issues on which the 2014 Conceptual Framework had previously been silent:</p> <ul style="list-style-type: none">• Rights can be classified as those that correspond to an obligation of another party and those that do not correspond to an obligation of another party (paragraph 5.7A).• Ways in which rights can be established (paragraph 5.7B).• That when services are received and immediately consumed, an entity's right to obtain the service potential or/and economic benefits produced by such services exists very briefly until the entity consumes the services. This issue can arise when an entity receives in-kind services (paragraph 5.7C).• Noting that not all rights are assets of an entity (paragraph 5.7D).• In principle, each of an entity's rights is a separate asset (paragraph 5.7E).	
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	<ul style="list-style-type: none"> In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset (paragraph 5.7F: also noted above in paragraph BC5.3E). 	
<p>Specific Matter for Comment 4: Definition of a Liability</p> <p>The revised definition of a liability is in paragraph 5.14: <i>A present obligation of the entity to transfer resources as a result of past events.</i> The reasons for the revised definition are in paragraphs BC5.18A-BC5.18H.</p> <p><i>Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?</i></p>	<p>Paragraph BC5.18A The definition of a liability in the 2014 Conceptual Framework was: <i>A present obligation of the entity for an outflow of resources that results from a past event.</i></p> <p>Paragraph BC5.18B The definition of a liability in the IASB’s 2018 Conceptual Framework is: <i>A present obligation of the entity to transfer an economic resource as a result of past events.</i></p> <p>Paragraph BC5.18C As for the asset definition (see paragraphs BC5.2A-J) both IPSASB and IASB definitions contained the same or similar components resources/an economic resource; outflow of resources/transfer of resources; and a past event/past events. The differences were:</p> <p>(a) As in the asset definitions, the IASB uses the term “economic resource”, whereas the IPSASB uses the term “resource”. The IPSASB’s reason for retaining the term “resource” is in paragraph BC5.2G.</p> <p>(b) The IASB definition replaced the term “outflow of resources” with “transfer of an economic resource”. This was largely because of the linkage of the term an outflow of resources with the expectation of such an outflow and therefore potential confusion with a recognition threshold.</p> <p>(c) As in the asset definition, the IASB uses “past events” (plural). The IPSASB uses “past event” (singular). The IPSASB formulation indicates that there need be only one past event in order for the definition to be met.</p> <p>Paragraph BC5.18D The IPSASB was persuaded by the adoption of the term transfer of resources and considered the standards-level implications of the adoption of the term “transfer of resources” in the revised definition of a liability at the standards-level.</p> <p>Paragraph BC 5.18E The IPSASB noted that the term “transfers” is defined in IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers). A project to replace IPSAS 23 was underway at the time that the Limited Scope</p>	<p>We agree with the proposed revised definition of a liability.</p>

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	<p>Update took place. The IPSASB concluded that any ambiguities or inconsistencies between conceptual and standards levels could be mitigated by adjustments to new defined terms and the provision of guidance on what a transfer of resources involves.</p> <p>Paragraph BC 5.18F Consistent with the analysis for assets the IPSASB considered that the use of the plural “past events” rather than the singular “past event” better conveys that present obligations that give rise to liabilities can accumulate over time due to an initial past event and further past events.</p> <p>Paragraph BC 5.18G The revised definition of a liability is: <i>A present obligation of the entity to transfer resources as a result of past events.</i></p> <p>Paragraph BC5.18H As for assets, the IPSASB considered the sequencing of guidance on liabilities and reconfigured the guidance so that it reflected the components of the definition of a liability more clearly. The revised structure also drew on the approach in the IASB’s 2018 Conceptual Framework in describing the characteristics of an obligation more clearly and linking a present obligation to a past event. This necessitated a relocation of guidance.</p>	
<p>Specific Matter for Comment 5: Guidance on the Transfer of Resources</p> <p>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.</p> <p>Do you agree with this guidance? If not, how would you modify it?</p>	<p>Paragraph 5.16A To satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources-the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.</p> <p>Paragraph 5.16B An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about what information to provide about the liability and how to provide that information.</p> <p>Paragraph 5.16C Obligations to transfer resources include, for example:</p> <ul style="list-style-type: none"> (a) Obligations to pay cash; (b) Obligations to provide services or deliver goods. 	<p>We agree with the guidance on the transfer of resources.</p>

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	<p>(c) Obligations to exchange resources with another party on unfavourable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavourable or an option that entitles another party to purchase resources from the entity;</p> <p>(d) Obligations to transfer resources if a specified uncertain future event occurs; and</p> <p>(e) Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource.</p> <p>Paragraph 5.16D Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:</p> <ul style="list-style-type: none">(a) Settle the obligation by negotiating a release from the obligation;(b) Transfer the obligation to a third party; or(c) Replace the obligation to transfer resources with another obligation by entering into a new transaction. <p>Paragraph 5.16E In the situations identified in paragraph 5.16D an entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.</p> <p>Paragraph 5.16F In a principal-agent relationship, if the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources not the agent's.</p> <p>Paragraph BC5.19A The guidance on "an outflow of resources from the entity" in the 2014 Conceptual Framework was limited to statements that "a liability must involve an outflow of resources from the entity for it to be settled" and that "an obligation that can be settled without an outflow of resources from the entity is not a liability".</p> <p>Paragraph BC5.19B In IPSASB's Revenue project some constituents indicated that ED 71, Revenue without Performance Obligations, was not clear on what gives rise to a liability in a binding arrangement. It became evident that this lack of clarity was partly attributable to uncertainty over what constitutes an outflow of resources from the entity.</p>	
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	<p>Paragraph BC5.19C The IPSASB noted that the IASB 2018 Conceptual Framework includes guidance on the application of a transfer of resources. With appropriate changes for public sector terminology, this guidance has been added in paragraphs 5.16A-5.16E of Chapter 5:</p> <p>(a) Paragraph 5.16A states that the obligation must have the potential to require the entity to transfer a resource to another party or parties. The transfer does not have to be certain or even likely and might be dependent on a specified uncertain future event occurring.</p> <p>(b) Paragraph 5.16B states that an obligation can meet the definition of a liability even if the probability of a transfer of a resource is low.</p> <p>(c) Paragraph 5.16C provides examples of obligations to transfer a resource.</p> <p>(d) Paragraph 5.16D indicates that rather than fulfil an obligation to transfer a resource to another party, entities may sometimes negotiate release from the obligation, transfer the obligation to a third party or replace the obligation with another obligation by entering into a new transaction. This paragraph reflects that in the public sector an entity’s ability to extinguish or reduce a present obligation other than by fulfilment may be limited.</p> <p>(e) Paragraph 5.16E states that in the situations described in paragraph 5.16D an entity has an obligation to transfer a resource until it has negotiated release, transferred or replaced the obligation.</p> <p>Paragraph BC5.19D The IPSASB emphasized that the ability to extinguish or reduce a present obligation by methods other than fulfilment does not mean that an entity has a realistic alternative of avoiding a transfer of resources and therefore a rationale for non-recognition of a present obligation as a liability, which otherwise meets recognition criteria.</p>	
<p>Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities</p> <p>In addition to including guidance on the transfer of resources, the IPSASB has</p>	<p>Paragraph 5.14A For a liability to exist, three criteria must all be satisfied:</p> <p>(a) The entity has an obligation (paragraphs 5.15-5.15F);</p> <p>(b) The obligation is to transfer resources (paragraphs 5.16A-5.16E); and</p>	<p>We agree with the proposal to restructure the guidance on liabilities so that it aligns better with the revised definition of a liability.</p>

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<p>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.</p> <p>Do you agree with this restructuring? If not, how would you modify it?</p>	<p>(c) The obligation is a present obligation arising from one or more past events (paragraphs 5.17-5.17D).</p> <p>Paragraph 5.15 Public sector entities can have a number of obligations. Obligations are binding when an entity has little or no realistic alternative to avoid them.</p> <p>Paragraph 5.15A Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for a present an obligation and a liability to exist.</p> <p>Paragraph 5.15B Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves a transfer of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.</p> <p>Paragraph 5.15C A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of nonexchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has little or no realistic alternative to avoid the obligation and that a liability exists.</p>
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	<p>Paragraph 5.15D Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date but will be enforceable with the passage of time without the external party having to meet further conditions or having to take any further action prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.</p> <p>Paragraph 5.15E Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Conceptual Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.</p> <p>Paragraph 5.15F Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:</p> <ul style="list-style-type: none">• The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;• As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and• The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities. <p>Paragraph 5.16A To satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.</p>	
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	<p>Paragraph 5.16B An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about what information to provide about the liability and how to provide that information.</p> <p>Paragraph 5.16C Obligations to transfer resources include, for example:</p> <ul style="list-style-type: none">(a) Obligations to pay cash;(b) Obligations to provide services or deliver goods.(c) Obligations to exchange resources with another party on unfavourable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavourable or an option that entitles another party to purchase resources from the entity;(d) Obligations to transfer resources if a specified uncertain future event occurs; and(e) Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource. <p>Paragraph 5.16D Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:</p> <ul style="list-style-type: none">(a) Settle the obligation by negotiating a release from the obligation;(b) Transfer the obligation to a third party; or(c) Replace the obligation to transfer resources with another obligation by entering into a new transaction. <p>Paragraph 5.16E In the situations identified in paragraph 5.16D an entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.</p> <p>Paragraph 5.16F In a principal-agent relationship, if the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources not the agent's.</p> <p>Paragraph 5.17 A present obligation is binding. To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of one or</p>	
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	<p>more past transactions or other past events and requires a transfer of resources from the entity.</p> <p>Paragraph 5.17A A present obligation exists as a result of past events only if:</p> <ul style="list-style-type: none">(a) The entity has already obtained service potential or economic benefits or taken an action; and(b) As a consequence, the entity will or may have to transfer resources that it would not otherwise have had to transfer. <p>Paragraph 5.17B In the public sector, obligations may arise at a number of points. For example, in implementing a program or service:</p> <ul style="list-style-type: none">• Making a political promise such as an electoral pledge;• Announcement of a policy;• Introduction (and approval) of the budget (which may be two distinct points); and• The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected). <p>The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to present obligations that meet the definition of a liability.</p> <p>Paragraph 5.17C The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:</p> <ul style="list-style-type: none">• The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to	
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	<p>introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;</p> <ul style="list-style-type: none"> • The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented. • There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen. <p>Paragraph 5.17D “Economic coercion”, “political necessity” or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid a transfer of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.</p> <p>Paragraph BC5.18H As for assets, the IPSASB considered the sequencing of guidance on liabilities and reconfigured the guidance so that it reflected the components of the definition of a liability more clearly. The revised structure also drew on the approach in the IASB’s 2018 Conceptual Framework in describing the characteristics of an obligation more clearly and linking a present obligation to a past event. This necessitated a relocation of guidance. The revised guidance is in paragraphs 5.14A-5.17D.</p>	
<p>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</p>	<p>Paragraph 5.26A The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.</p>	<p>We agree with the addition of a section on Unit of Account.</p>

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<p>reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.</p> <p>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?</p>	<p>Paragraph 5.26B A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related revenue and expense. In some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. For presentation and disclosure, assets, liabilities, revenue and expense may need to be aggregated or separated into components.</p> <p>Paragraph 5.26C If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account.</p> <p>Paragraph 5.26D A unit of account is selected to provide useful information, which implies that:</p> <p>(a) The information provided about the asset or liability and about any related revenue and expense must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating, each right or obligation as a separate unit of account if, for example, those rights and obligations:</p> <ul style="list-style-type: none">(i) Cannot be or are unlikely to be the subject of separate transactions;(ii) Cannot or are unlikely to expire in different patterns;(iii) Have similar characteristics and risks; or(iv) Are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows. <p>(b) Information provided about the asset or liability and about any related revenue or expense must faithfully represent the substance of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source. Equally, to provide a faithful</p>	
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	<p>representation of unrelated, rights or obligations, it may be necessary to recognize and measure them separately.</p> <p>Paragraph 5.26E In selecting a unit of account it is also important to consider the cost-benefit constraint of financial reporting discussed in Chapter 3. In general, the costs associated with recognizing and measuring assets, liabilities, revenue and expense increase as the size of unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.</p> <p>Paragraph 5.26F Sometimes, both rights and obligations arise from the same source. For example, some binding arrangements establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account.</p> <p>Paragraph 5.26G Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the term of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset and liability.</p> <p>Paragraph 5.26H To the extent that either party fulfils its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's rights obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.</p>	
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	<p>Paragraph 5.26I Conversely, if rights are separable from obligations, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account, treating them as a single asset or a single liability.</p> <p>Paragraph 5.26J Treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Offsetting occurs when an entity recognizes and measures both an asset and liability as separate units of account but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.</p> <p>Paragraph BC5.36A The IASB 2018 Conceptual Framework describes unit of account as “the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and management concepts are applied”.</p> <p>Paragraph BC5.36B The IPSASB took the view that unit of account was a standards-level issue during the development of the 2014 IPSASB Conceptual Framework and there was no guidance on unit of account. Since 2014 the importance of decisions on the unit of account has been highlighted in a number of projects and led the IPSASB to re-evaluate the case for high-level guidance.</p> <p>Paragraph BC5.36C The IPSASB decided that guidance in the Conceptual Framework would be beneficial in informing standards-level requirements and guidance on unit of account. The IPSASB drew on the IASB 2018 Framework for this guidance, which is in paragraphs 5.26A-5.26J. The guidance on consideration of how the selection of a unit of account provides useful information in the IASB 2018 Conceptual Framework is in the context of the qualitative characteristics of relevance and faithful representation. The IPSASB took the view that other qualitative characteristics may need to be taken into account in assessing whether information is useful in determining the unit of account.</p>	
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<p>Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed</p> <p>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.</p> <p>Do you agree that:</p> <p>(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?</p> <p>If you do not agree, please give your reasons.</p>	<p>Paragraph 5.26G Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the term of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset and liability.</p> <p>Paragraph 5.26H To the extent that either party fulfils its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's rights obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.</p> <p>Paragraph BC5.36D The IPSASB 2014 Conceptual Framework does not include guidance on executory contracts. In the Limited Scope Update, the IPSASB evaluated whether guidance should be added to the Conceptual Framework.</p> <p>Paragraph BC5.36E The IASB 2018 Conceptual Framework describes an executory contract as "a contract or a portion of a contract, that is equally unperformed-neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent".</p> <p>Paragraph BC5.36F The IPSASB noted that the term "contract" has been problematic in some jurisdictions. This is because some public sector entities may not have powers to enter into contracts, although they may be able to enter into other binding arrangements. Consequently, the term "contract" has not been used widely in the Conceptual Framework. At the standard level the term "binding arrangement" has been generally used. The IPSASB has</p>	<p>We agree that guidance on principles for binding arrangements that are equally unperformed is necessary and it should be included in the Unit of Account section, rather than in a separate section.</p>
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	<p>used this term in the Conceptual Framework. The IPSASB concluded that the principles of accounting for binding arrangements that are equally unperformed could be incorporated in the Section on Unit of Account and that a separate section is unnecessary.</p>	
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