



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
7

DATE: February 14, 2007
MEMO TO: Members of the International Public Sector Accounting Standards Board
FROM: Paul Sutcliffe
SUBJECT: Public Sector Conceptual Framework

Objective of Agenda item

- To note progress on finalization of the IPSASB Conceptual Framework Project Brief and establishment of the IPSASB Conceptual Framework Subcommittee;
- To review the initial issues papers prepared by those national standards setters and similar bodies (NSS) with primary responsibility for preparing Group 1 Consultation Papers; and
- To note major issues for public benefit entities identified in the latest reports to the NSS-4 Group monitoring the IASB-FASB joint Conceptual Framework Project.

Introduction

This agenda item provides an update on the IPSASB's Conceptual Framework Project since the last IPSASB meeting, including progress on finalization of the Project Brief and establishment of the IPSASB subcommittee. It also includes an update on reports prepared for the group of 4 national standards setters (NSS-4) monitoring the IASB-FASB joint Conceptual Framework Project to identify issues that might arise for not for profit entities in the public and private sectors (termed public benefit entities).

AGENDA MATERIAL:

Papers

- 7.1 Update on finalization of Project Brief and establishment of the IPSASB subcommittee
- 7.2 Membership of the subcommittee and the monitoring group
- 7.3 Subcommittee members with primary responsibility for preparing Group 1 Consultation Papers
- 7.4 Initial Issues Papers prepared by the authors of Group 1 papers
- 7.5 Memorandum (dated 28 December 2006) from subcommittee chair to subcommittee members proposing subcommittee operational arrangements
- 7.6 Summary of issues identified in latest reports to the NSS-4 on the IASB-FASB joint Conceptual Framework Project
- 7.7 Public Sector Conceptual Framework Project Brief

PUBLIC SECTOR CONCEPTUAL FRAMEWORK

UPDATE ON FINALIZATION OF THE PROJECT BRIEF AND ESTABLISHMENT OF THE IPSASB SUBCOMMITTEE

The IPSASB is leading a collaborative project with national standards setters and similar bodies (NSS) to establish a public sector conceptual framework. At its last meeting in November 2006, the IPSASB agreed the Conceptual Framework Project Brief, subject to final revisions and review by the NSS participants.

Actions and developments on the Framework project subsequent to the last IPSASB meeting are noted below.

The Project Brief

The Project Brief was revised as directed at the last IPSASB meeting (November 2006), circulated to NSS participants for review and finalized by staff in conjunction with the IPSASB Chair and subcommittee Chair in December 2006. It was posted on the website in December 2006. (The Project Brief is attached at Agenda item 7.7)

The Project Brief notes that, as for any long term project, the process is evolutionary and it may be necessary to update and or refine particular components with the benefit of experience. This applies to timing of key milestones and the contents of individual consultation papers. It also notes that any comments on the Project Brief, including comments on the components of the framework and its proposed authority and scope, or other aspects of the project may be directed to IPSASB staff and will be considered by the IPSASB and/or its subcommittee as the project progresses.

At this stage, no additional comments on the Project Brief have been received.

Subcommittee Membership and Operating Procedures

At the November 2006 meeting the IPSASB agreed the NSS and IPSASB members who would form the subcommittee and wider project monitoring group, and initial proposals regarding the NSS participants who might accept responsibility for preparing Group 1 Consultation Papers.

The IPSASB directed that those NSS nominated for subcommittee membership should be contacted to confirm their membership and, as appropriate, their willingness to act as primary author for preparation of Group 1 Consultation Papers. The IPSASB also directed that final arrangements for subcommittee membership, project responsibilities and project staffing should be further developed by the subcommittee Chair in conjunction with the NSS participants and staff as appropriate.

Subcommittee membership was largely confirmed during November and December 2006 – the previous IPSASB Chair circulated an update on progress on this matter to IPSASB members in late December 2006. Subcommittee membership as at 14 February is identified in Agenda item 7.2. (Please advise staff if you are aware of any variation or further update to this listing.)

The subcommittee Chair also followed up with subcommittee members in late December 2006/early January 2007 proposing project responsibilities and additional subcommittee operational matters. The subcommittee Chair's memorandum to subcommittee members is included at Agenda item 7.5. It reflects the major features of the Project Brief as agreed by the IPSASB, identifies processes for development of Consultation Papers, notes timing of potential

subcommittee meetings during 2007 and develops further the role of staff and their interaction with subcommittee members. It is provided for information and comment. (Please Note: Attachments to subcommittee Chair's memorandum identifying subcommittee membership have now been updated and are included at items 7.2 and 7.3.)

As agreed at the IPSASB meeting in November 2006, the first group of tasks will be preparation of Consultation Papers dealing with the following:

1. The objectives of financial reporting;
2. The qualitative characteristics of financial information;
3. The "scope" of financial reporting; and
4. The characteristics of the reporting entity.

Those with primary responsibility for preparation of Group 1 Consultation Papers, and the NSS participants who have indicated an interest in preparing Group 2 Consultation papers, are identified at agenda item 7.3.

The Australian-AASB, Norwegian Institute of Public Accountants (NIPC), South African-ASB, and UK-ASB have agreed to take the lead in preparation draft Consultation Papers for review by the subcommittee and the IPSASB. These organizations are preparing an brief paper identifying matters/issues to be addressed in each consultation paper. The first of the initial issues papers (prepared by the UK-ASB) is included at Agenda item 7.4 for your review. The other issues papers are under development and will be included in the second distribution of materials for this IPSASB meeting. The authors would welcome your comments on matters proposed to be addressed by each Consultation Paper.

The IPSASB subcommittee will meet in Hong Kong in the afternoon of March 26, 2007 immediately following the NSS meeting. The NSS-4 Group monitoring the IASB-FASB conceptual framework project from a public benefit entity perspective will meet in the morning of March 26. IASB staff responsible for the IASB's conceptual framework project will attend both the NSS-4 meeting and the IPSASB subcommittee meeting.

Matters to be dealt with at the IPSASB subcommittee meeting will include consideration of:

- Progress on preparation of Group 1 papers. (Those with lead author responsibility for preparation of Group 1 papers will be present and will provide an update on progress);
- The Initial Issues Papers prepared by each author and any additional issues, including any cross-cutting issues with other Group 1 papers, that might have emerged to date; and
- Mechanisms for further developing the Group 1 papers, including interaction and co-ordination between the preparers of Group 1 papers that have significant overlap.

The subcommittee will also:

- Review the schedule for preparation of Group 1 and other papers in the light of progress made, and seek views on who might take responsibility for preparation of Group 2 papers; and
- Receive an update from the IPSASB Chair and Technical Director on IPSASB deliberations on this and other relevant projects at this (March 2007) IPSASB meeting.

Report on IASB-FASB Joint Conceptual Framework Project

A group of four national standards setters (NSS-4) has been monitoring the IASB-FASB joint Conceptual Framework Project for possible public sector and not-for-profit entity implications

(termed public benefit entities). The NSS-4 group comprises: Australia, Canada, New Zealand and UK.

Mr Kevin Simpkins, a former IPSASB member, has reviewed papers presented to the IASB-FASB on their joint Conceptual Framework Project and prepared for review by the NSS-4 members reports on IASB-FASB deliberations, noting possible implications for public benefit entities. Those reports are also made available to IPSASB staff. Previously, the reports were also made available to an IPSASB subcommittee - established in 2005. That subcommittee has now been absorbed into the current subcommittee.

The reports prepared for the NSS-4 provide valuable input to the development of the IPSASB Framework. A summary of these reports has been provided to the IPSASB at each meeting. A summary of Mr Simpkins latest reports, together with a summary of his previous reports is included at Agenda item 7.6.

The reports will be provided to the “new” IPSASB subcommittee and are available to members on request.

PUBLIC SECTOR CONCEPTUAL FRAMEWORK

**CONCEPTUAL FRAMEWORK SUBCOMMITTEE AND MONITORING GROUP
MEMBERSHIP (Updated February, 2007)**

Country	Member	Contacts
<i>IPSASB</i>	<i>IPSASB Member</i>	
UK	M. Hathorn - Chair	M. Hathorn, I. Carruthers
Argentina	C. Palladino	C. Palladino
Japan	T. Sekikawa	T. Sekikawa, K. Izawa
New Zealand	G. Schollum	G. Schollum,
Norway	T. Olsen	T. Olsen, H. Brandis, Didrik Thrane-Nielsen**
USA	D. Bean	D. Bean
<i>NSS</i>	<i>NSS Member</i>	<i>NSS Contacts</i>
Australia - AASB	D. Boymal	D. Boymal, J. Paul, Ahmad Hamidi-Ravari**
China - Ministry Finance	Weidong Feng	Weidong Feng , Li Hongxia
France - Ministry of Finance	P. Soury	P. Soury, L. Vareille
IMF Statistics Department and Fiscal Affairs Department	To be confirmed*	L. Laliberte
Italy - Ministry Economica/Finance	To be confirmed*	Prof. P. Germani, M. Bessone
South Africa - ASB	E. Swart	E. Swart**, R.Cottrell
UK- ASB	I. Mackintosh	I. Mackintosh, D. Loweth**
<i>Monitoring Group</i>	<i>Monitoring Group Member</i>	<i>Monitoring Group Contacts</i>
Canada - PSAB	R. Salole	R. Salole
FEE - PSC	C. Mawhood	C. Mawhood
Netherlands – Ministry of Internal Affairs	W.G.J. Wijntjes	W.G.J. Wijntjes
Spain - Ministry Economy and Finance	M. Garcia Saenz	M. Garcia Saenz, B. Hernandez Fehatrnandez-Canteli
Switzerland - Dept Finance	M. Stockli	M. Stockli
		<i>IPSASB Staff</i>
		S. Fox, P. Sutcliffe

*Individual designated as subcommittee or monitoring group member yet to be confirmed.

** Primary author of Group 1 Consultation Paper

**PUBLIC SECTOR CONCEPTUAL FRAMEWORK
SUBCOMMITTEE MEMBERS WITH PRIMARY RESPONSIBILITY FOR
PREPARATION OF CONSULTATION PAPERS (Updated February, 2007)**

Country	Provide staff for	Proposed topic	Primary Author
<i>IPSASB</i>			
UK			
Argentina			
Japan			
New Zealand			
Norway	1st stage paper - (NIPC)*	Qualitative Characteristics	Didrik Thrane-Nielsen
USA			
<i>NSS</i>			
Australia - AASB	1st stage paper	Reporting Entity	Ahmad Hamidi-Ravari
China - Ministry of Finance	2 nd stage paper	To be determined	To be determined
France - Ministry of Finance	2 nd stage paper	To be determined	To be determined
IMF Statistics Dep & Fiscal Affairs Dep	Components of papers	To be determined	To be determined
Italy - Ministry Economica/Finance	To be confirmed		
South Africa - ASB	1st stage paper	Scope of financial reporting	Erna Swart
UK- ASB	1st stage paper	Objectives of financial reporting	David Loweth
<i>Monitoring Group</i>			
Canada - PSAB			
FEE - PSC			
Netherlands – Ministry of Internal Affairs			
Spain - Ministry Economy and Finance			
Switzerland - Dept Finance	2 nd stage paper	To be determined	To be determined
<i>IPSASB Staff</i>			
S. Fox	Oversight		
P. Sutcliffe	Project management Draft ED		

Staff resources provided through Norwegian Institute of Public Accountants (NIPC)

All subcommittee members will participate in review of materials prepared by the lead NSS.

**PUBLIC SECTOR CONCEPTUAL FRAMEWORK
INITIAL ISSUES PAPERS PREPARED BY PRIMARY AUTHORS OF GROUP 1
PAPERS**

Objectives of Financial Reporting – UK-ASB

Initial Issues Paper:
Lead standard-setter:
Primary Author:

The objectives of financial reporting
United Kingdom
David Loweth

1. The purpose of this component of the project is to set out proposals for consultation on the objectives of financial reporting by public sector entities.

Key issues to be addressed

2. The key issues to be addressed in this component of the project are:
 - Is there one objective of public sector financial reporting, or more than one?
 - What is the role of accountability/stewardship in the public sector context?
 - Who are the users of public sector financial reports?
 - What are their information needs?
 - Should the objectives designate a primary group of users?
 - Are there different considerations/implications with regard to financial reporting at the whole of the public sector/whole of government level as compared to reporting by individual public sector bodies and/or categories of entity (such as central government, local authorities etc)?
3. Work on proposals for the scope of financial reporting in the public sector is being led by the South African Accounting Standards Board. There will be a need for close liaison given the interrelationships between the two components, in particular in determining whether the objectives should focus on general purpose financial statements or general purpose financial reports.

Coverage in existing International Public Sector Accounting Standards (IPSASs)

4. The coverage in the current IPSASs is limited. In the accrual IPSASs:
 - IPSAS 1 ‘Presentation of Financial Statements’ contains a section on the purpose of financial statements (paragraphs 13-15);
 - IPSAS 2 ‘Cash Flow Statements’ identifies the objective of the cash flow statement and the benefits of cash flow information (paragraphs 5-7).
5. In the IPSAS ‘Financial Reporting Under the Cash Basis of Accounting’, the objective section at the beginning of the statement specifies why information about the cash receipts, cash payments and cash balances of an entity is necessary.

Coverage in the IASB-FASB joint Conceptual Framework project and other relevant material

6. The International Accounting Standards Board (IASB) issued a Discussion Paper (DP) in July 2006 ‘Preliminary Views on an improved Conceptual Framework for

Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information’ as the first output from the joint conceptual framework project being undertaken with the US Financial Accounting Standards Board (FASB).

7. The preliminary views set are clearly of relevance to this component of the IPSASB project. A group of chairs and senior staff of the standard-setters of Australia, Canada, New Zealand and the UK (the ‘Group of Four’) is monitoring the applicability of the conceptual framework project to not-for-profit entities in the public and private sectors (public-benefit entities). A report from the group (authored by Kevin Simpkins) issued in July 2006 highlighted three main issues of the IASB/FASB’s proposed objective of financial reporting:

- insufficient emphasis on accountability/stewardship;
- a need to broaden the identified users and establish an alternative primary user group; and
- the inappropriateness of the pervasive cash flow focus.

8. A number of national standard-setters and other organisations have also issued material that is relevant to this component of the project. For example, all of the Group of Four has published such material, as have the US Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB). There is also some relevant academic literature that will be drawn upon.

**UK Accounting Standards Board (ASB)
5 February 2007**



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DATE: 28 DECEMBER 2006
MEMO TO: MEMBERS - CONCEPTUAL FRAMEWORK SUBCOMMITTEE
FROM: MIKE HATHORN
TOPIC: PROJECT TASKS AND SUBCOMMITTEE OPERATION

Dear Subcommittee Members

Mr Philippe Adhémar, the IPSASB Chair, wrote to you recently to provide you with an update on progress on the collaborative project to develop a public sector conceptual framework. That letter included the proposed membership of the IPSASB subcommittee and noted that the Chair of the subcommittee would follow up with you to clarify responsibilities for preparation of subcommittee and IPSASB materials, and operating procedures for the subcommittee.

I have agreed to Chair the subcommittee and am writing to you now to follow up as requested.

Allocation of projects to NSS participants

The proposed allocation of projects to NSS participants is included as Attachment 1 to this email. To the extent possible, it reflects the advice you provided to IPSASB staff in the lead up to the IPSASB's November 2006 meeting regarding your interest in taking primary responsibility for development of one of the first group of consultation papers outlined in the project brief. A proposed schedule for development of group 1 papers during 2007 and 2008 is included as Attachment 2.

Please advise me (mike.hathorn@moorestephens.com) and Paul Sutcliffe (psutcliffe@ifac.org) by 8 January 2007 (sooner if possible) if these appear satisfactory as an initial working basis for our project. In particular, whether:

- allocation to you of a first or second stage project is appropriate, and fits with your expectations regarding availability of your staff resources;
- for those proposed to lead a first stage project, you are prepared to accept the particular task as proposed. If you accept the task, could you identify the individual from your organization designated to be the primary author of the paper; and
- the time frames proposed are acceptable as initial targets to work to. I do appreciate that the proposed time lines are very tight, but would like to keep them as our initial targets. We will monitor and, as necessary, revisit these as we progress.

I will provide you all with confirmation of final project allocation as soon as possible.

All the projects are interrelated to some extent, and it will be necessary for us to ensure that we alert each other to cross-cutting issues as they arise. This will be particularly so in respect of the projects on the objectives of financial reporting and the scope of financial reporting. As interaction and exchange of views occurs, will you channel these through IPSASB staff (see below) - or ensure that IPSASB staff are copied into key correspondence. Staff can then keep me informed of developments and I can ensure that, as appropriate, progress reports are prepared for all subcommittee and monitoring group members and for the IPSASB.

Each NSS will in the first instance develop separate draft consultation papers dealing with the topic agreed. However, it may well be that we will group the papers for issue, much as the IASB did with their first discussion paper, which encompassed the objectives and qualitative characteristics - that is a matter that we can consider as we further develop the project.

Attachment 3 is a broad working schedule to encompass the full project. I propose that we further develop the details of the scheduler for 2009 and beyond as we achieve our targets for 2007 and 2008.

User needs focus groups

At its November 2006 meeting, the IPSASB directed that the objectives paper include a section on user needs, and that a draft of that paper or section be used as a basis for discussion with user needs focus groups. These focus group sessions could also be used to test the drafts of other group 1 consultation papers. We will develop further this part of our development program in early 2007. I am hopeful that IPSASB, subcommittee and monitoring group members, together with the IPSASB Consultative Group and observer group will assist us to organize focus group sessions on a regional basis: Africa, Europe, North America, Latin America, Asia, Oceania. There may also be the opportunity to use IPSASB meetings in Accra in March 2007 and Montreal in July 2007 to harness focus group discussion.

Operating Procedures

The broad operating procedures of the subcommittee are outlined in the project brief. The following sections of this memorandum include proposals for implementation of key aspects of those procedures.

Initial Issues Papers

As identified in the project brief, it is proposed that the IPSASB confirm the broad parameters for each stage of the project based on a key issues or similar paper. To respond to this aspect of our process, I propose that those of you who have accepted responsibility for a particular project, prepare a brief project initiation paper including such matters as:

- an initial brief points outline of the paper, identifying key issues to be addressed in the paper, and any particular areas or contentious issues that you wish to highlight for the IPSASB and other subcommittee members;
- whether the matters to be addressed have already been dealt with in IPSASs and provide a basis for further development;

- whether this topic has been dealt with in public documents already issued by the IASB as part of its current joint project with the FASB to revise the IASB Framework or has been discussed by the group of NSS who are monitoring the IASB-FASB joint project. If so, whether those proposed amendments cause particular concern or highlight specific matters that will need to be highlighted in the Consultative Paper;
- any other matters that you want to bring to the attention of the IPSASB.

I appreciate that our primary focus is on the accrual basis, and that the cash basis of accounting holds little interest for many NSS. However, it would be useful if the consultation paper on each topic could include a brief section noting your views on whether the matters you address are equally applicable to the cash basis. This will enable us to draw comment on this at an early stage of project development and appears the most effective method of dealing with this component of our task. If you are agreeable, the project initiation paper to be circulated to the IPSASB could usefully note that this will be the case.

I believe it is important that we maintain momentum on this project. Accordingly, I propose that the NSS who have accepted responsibility for developing first drafts of specific group 1 papers, provide to IPSASB staff the brief project initiation paper by the end of January 2007, or first week in February 2007 at latest. These can then be circulated to IPSASB members for comment out of session. I also propose that, if possible, your paper development work proceed during January 2007. While the IPSASB members may have some comments on the issues papers, I anticipate they will be in the nature of elaborations and refinements. Accordingly, I do not propose that we hold back development work until we have confirmation from the IPSASB on matters raised in these papers.

IPSASB staff support

The role of the IPSASB staff is outlined in the project brief. Stephenie Fox, the IPSASB Technical Director, and Paul Sutcliffe, a senior advisor, will provide primary staff support to the subcommittee and the IPSASB on this project. If you have any queries about IPSASB protocols, do not hesitate to contact Stephenie or Paul.

As you will see from Attachment 3, I anticipate that the staff will provide a co-ordination role in development of the consultation papers, but will then have primary responsibility to draft the exposure draft, with the subcommittee acting as the first reviewer of the draft ED. The staff will also draw out implications for development of any cash basis framework.

Staff will also report on the NSS 4 group monitoring the IASB-FASB joint project on an ongoing basis.

Subcommittee meetings

The project brief notes that to the extent possible we will conduct business by electronic means. This is desirable given our already heavy work loads and travel commitments. However, I think it inevitable that we will need to meet on occasion to discuss specific contentious issues and to ensure that linkages across the papers are acknowledged and dealt with appropriately. On the basis that we will work towards the key milestones identified in the project development schedule (Attachment 2), I propose that those responsible for preparing group 1 papers (and other subcommittee members if possible) schedule a meeting for March 26 or 27, 2007 in Hong Kong to coincide with the NSS meeting there. The purpose of that meeting being to note progress, discuss any cross cutting issues that might

have emerged to date, and to allow me to report back on any developments from the March IPSASB meeting.

I believe it would also be useful if the subcommittee could meet for a half day meeting in Montreal on July 2, the day before the IPSASB meeting (again tentative, but could those who will be in the region block their diaries for this date). I intend that the conceptual framework discussion occur on the first day of the IPSASB meeting itself (July 3). I invite all NSS members to join the public gallery to observe that discussion and to participate as appropriate in round table discussions that might occur as part of the meeting. Those NSS participants with responsibility to develop specific papers may then wish to meet with IPSASB staff in the evening to confirm the next steps. I will also seek advice from our North American colleagues on the potential for using the occasion to organize a user needs focus group discussion.

Thank you for your participation in, and support of, this major project. We have much work to do. I anticipate it will be demanding and interesting. I look forward to working with you all.

Mike Hathorn
Chair
IPSASB Subcommittee
Public Sector Conceptual Framework

CONCEPTUAL FRAMEWORK SUBCOMMITTEE
PROPOSED TASKS (for confirmation Dec 2006)

Country	Provide staff for	Proposed topic	Primary Author
IPSASB			
UK			
Argentina			
Japan			
New Zealand			
Norway	1st stage paper	Qualitative Characteristics	*NIPC – author to be confirmed
USA			
NSS			
Australia - AASB	1st stage paper	Reporting Entity	To be confirmed
China - Ministry of Finance	2 nd stage paper		
France - Ministry of Finance	2 nd stage paper		
IMF Statistics Dep & Fiscal Affairs Dep	Components of papers		
Italy - Ministry Economica/Finance	To be confirmed		
South Africa - ASB	1st stage paper	Scope of fin. reporting	To be confirmed
UK- ASB	1st stage paper	Objectives of fin. reporting	To be confirmed
Monitoring Group			
Canada - PSAB			
FEE - PSC			
Netherlands – Ministry of Internal Affairs			
Spain - Ministry Economy and Finance			
Switzerland - Dept Finance	2 nd stage paper		
IPSASB Staff			
S. Fox	Oversight		
P. Sutcliffe	Project management Draft ED		

All subcommittee members will participate in review of materials prepared by the lead NSS.

* Staff resources provided through Norwegian Institute of Public Accountants (NIPC)

Conceptual Framework Development Schedule – Group 1 Projects

Proposed Actions/Timing 2006 – 2008	
December 2006	Subcommittee established. NSS confirm project brief and agree project resourcing and subcommittee operating procedures.
January 2007	NSS participants responsible for preparation of group 1 Consultation Papers (NSS group 1) provide brief issues paper to IPSASB staff for circulation to IPSASB, other subcommittee members and NSS monitoring group. NSS commence preparation of consultation papers.
February 2007	IPSASB members other subcommittee members and NSS monitoring group provide views on brief issues paper.
March 2007	<u>March 20-23</u> - IPSASB meet in Accra – provided with update on progress.
	<u>March 26</u> - NSS with responsibility for first group of consultation papers and other subcommittee members meet in Hong Kong to discuss co-ordination of paper preparation.
April/May 2007	Draft group 1 consultation papers provided to subcommittee and monitoring group for comment. NSS group 1 refine papers based on comments. User needs focus groups convened to provide input to objectives and, as appropriate, scope and other papers.
June 2007	First draft consultation papers forwarded to IPSASB and monitoring group.
July 2007	IPSASB considers first group of consultation papers and provides direction for further development. NSS group 1 meet following IPSASB meeting to develop strategy for follow up actions/revisions.
August/September 2007	NSS group 1 refine papers, circulate to subcommittee and monitoring group for comments and further develop.
October 2007	Revised draft papers forwarded to IPSASB for review.
November/December 2007	IPSASB agrees consultative papers and/or provides directions for further development.

Proposed Actions/Timing 2006 – 2008	
	Consultative papers finalized for issue. Comments by end of April 2008.
March 2008	IPSASB receives report on status of group 1 papers and comments received to date.
April/May 2008	Comments received circulated to subcommittee together with IPSASB staff summary of comments. Subcommittee develops recommendations for materials for inclusion in exposure draft.
July 2008	IPSASB reviews comments received and subcommittee recommendation for materials for inclusion in exposure draft.
2008	IPSASB staff develop draft text of exposure draft for review by subcommittee. IPSASB staff develop paper on implications of group 1 projects for cash basis IPSAS for review by subcommittee and IPSASB. IPSASB determines if cash basis implications should be issued as separate consultation paper.

Attachment 3

Conceptual Framework Development Schedule 2006- 2012

Proposed Actions/timing – all projects	
2006	<p><i>IPSASB and NSS agree:</i></p> <ul style="list-style-type: none"> • <i>to action a collaborative project;</i> • <i>project brief and key milestones;</i> • <i>project resourcing and operating procedures;</i> • <i>subcommittee and monitoring group; and</i> • <i>NSSs responsible for leading group 1 tasks.</i>
2007	<p><u>Group 1 Consultation Papers</u> First group of Consultation papers developed:</p> <ul style="list-style-type: none"> • Objectives of financial reporting (United Kingdom ASB) • Scope of Financial reporting (South Africa - ASB) • Qualitative Characteristics (Norway - NIPA) • Reporting Entity (Australia - AASB) <p>User needs focus groups provide input to draft objectives paper (and other group 1 papers as appropriate).</p> <p>Consultation Papers issued for comment late 2007/early 2008.</p> <p><u>Group 2 Consultation Papers</u> October/November 2007: IPSASB and NSS agree NSS responsibilities for leading group 2 Consultation Papers:</p> <ul style="list-style-type: none"> • Definition and recognition of elements of financial • Other elements of general purpose financial reports
2008	<p><u>Group 1 Consultation Papers</u> Subcommittee reviews responses to group 1 Consultation Papers and makes recommendations to IPSASB for material for inclusion in ED. IPSASB considers responses to group 1 Consultative Papers and subcommittee recommendations thereon. IPSASB provides directions for first draft of these components of the ED. IPSASB staff prepare first draft of these components of ED for subcommittee review.</p> <p>IPSASB staff prepare paper on applicability/implications of group 1 projects for cash basis framework for review by subcommittee and IPSASB. IPSASB considers if paper should be issued for comment.</p> <p><u>Group 2 Consultation Papers</u> Group 2 consultation papers developed and agreed for issue (late 2008/early 2009):</p> <ul style="list-style-type: none"> • Definition and recognition of elements of financial statements (NSS to be determined)

Proposed Actions/timing – all projects	
	<ul style="list-style-type: none"> Other elements of general purpose financial reports (NSS to be determined). <p><u>Group 3 Consultation Papers</u> July 2008: IPSASB and NSS agree NSS responsible for leading group 3 consultation papers.</p> <ul style="list-style-type: none"> Measurement Presentation and disclosure. <p>November 2008: Brief outline of measurement and presentation and disclosure papers and strategy for their development provided to subcommittee and IPSASB for comments.</p>
2009	<p><u>Group 2 Consultation Papers</u> Subcommittee reviews responses to group 2 Consultation Papers and makes recommendations to IPSASB on materials for inclusion in ED.</p> <p>IPSASB reviews responses to group 2 papers and subcommittee recommendations thereon. Provides directions on these matters for first draft of the ED. IPSASB staff prepare first draft of these components of ED for subcommittee review.</p> <p>IPSASB staff prepare paper on applicability/implications of group 2 projects for cash basis framework for review by subcommittee and IPSASB.</p> <p><u>Group 3 Consultation Papers</u> Group 3 Consultation Papers developed and issued late 2009:</p> <ul style="list-style-type: none"> Measurement (NSS to be determined) Presentation and disclosure (NSS to be determined).
2010	<p><u>Group 3 Consultation Papers</u> Subcommittee reviews responses to group 3 Consultation Papers and makes recommendations to IPSASB on materials for inclusion in ED.</p> <p>IPSASB reviews responses to group 3 papers and subcommittee recommendations thereon. Provides directions on these matters for first draft of the ED.</p> <p>IPSASB staff prepare first draft of full accrual ED for subcommittee and IPSASB review late 2010.</p> <p><u>Group 4 Consultation Papers/Cash Basis ED</u> IPSASB staff prepare paper on applicability/implications of group 3 projects for cash basis framework for review by subcommittee and IPSASB.</p> <p>Subject to previous decisions made re issue of consultation papers on cash basis implications (see above) IPSASB determines if separate cash basis consultation paper or ED should be issued.</p>

Proposed Actions/timing – all projects	
2011-2012	<p><u>Exposure Draft of Accrual Framework</u> IPSASB approves ED for issue in 2011.</p> <p>Following exposure, subcommittee reviews responses to ED and makes recommendations to IPSASB on materials for inclusion in framework.</p> <p>IPSASB reviews responses to ED and subcommittee recommendations thereon.</p> <p>Final accrual framework developed and agreed 2012.</p> <p><u>Cash Basis ED and Framework</u> Consequences of previous decisions re implications for cash basis and strategy for process of developing/confirming cash basis framework implemented – that is, as appropriate responses to cash basis ED, consultation papers considered and cash basis framework (or implications of accrual framework for cash basis) agreed.</p>

PUBLIC SECTOR CONCEPTUAL FRAMEWORK

SUMMARY OF ISSUES FROM NSS MONITORING REPORTS ISSUED SUBSEQUENT TO LAST IPSASB MEETING (Reports 12 and 13)

A total of 13 Reports have been prepared by former IPSASB member Mr Kevin Simpkins for review by the group of four national standards setters (NSS-4) monitoring the IASB-FASB joint Conceptual Framework Project for possible public sector and not-for-profit entity implications.

Reports 12 and 13 were prepared subsequent to the last IPSASB meeting in November 2006, and are summarized below. Summaries of the first 11 Reports were included in IPSASB agenda papers during 2005 and 2006. For the your information, these summaries are included as an Attachment to this item (at pages 7 to 15).

Reports 12 and 13 to the NSS-4 deal with papers provided to the IASB and FASB in November and December 2006. Those IASB-FASB papers continue to develop and explore implications and consequences of definitions of assets and liabilities, and the notion of a reporting entity.

Report 12 comments on further developments in the IASB-FASB papers dealing with the definition of an asset and issues related to distinguishing a liability from equity.

Report 13 deals primarily with developments in the reporting entity phase of the project.

The observations below are summarized from the Reports to the NSS-4, comments from individual NSS-4 participants in response to those Reports, and the IASB Update which reports the September and December 2006 IASB meetings.

Draft definition of an asset

The definition of an asset has been further developed for consideration by the IASB-FASB, and is currently proposed as follows:

An **asset** is a present economic resource to which the entity has a present right or other privileged access.

- a) *Present* means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.
- b) An *economic resource* is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. An economic resource can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises that others make to the entity, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c) A *right or other privileged access* enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. *Rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access.

The Report to the NSS-4 notes that this definition represents a significant improvement over previous definitions, but that further developments are likely to be necessary/useful to adequately deal with assets of not for profit entities in the public or private sectors – referred to as public benefit entities (PBEs).

Issues raised in the Report include whether:

1. Inclusion of more detail in the definition itself reduces the potential for a common definition to be achieved for all entities – the alternative being a short definition with key terms explained in amplifying text.
2. The additional explanation of an economic resource as something that has positive economic value will be interpreted too narrowly to encompass all the value options possible/intended, including “utility or capability to contribute to objectives”. Value relates to the objective of the entity - if the objective is to maximize profits, future cash flows are the key indicator and value will be indicated by potential cash flows. However, if service delivery is the objective, cash flows may be less important and value indicated by “utility or capability to contribute to objectives”. Further elaboration of this notion of positive economic value would be most helpful for PBEs.
3. The reference to an economic resource being capable of being used to carry out economic activities such as production and exchange is sufficiently broad to encompass the activities of many PBEs. Addition of something like “service provision” alongside production and exchange would assist in applying the definition to PBEs.
4. Linking economic resource to production of net cash inflows or reduction of net cash outflows is appropriate for all items of all PBEs. These characteristics of the definition will often apply for many PBEs – for example, items held for charitable purposes or to provide services can often be sold and, therefore, have positive economic value; and if the entity needs to replace the item, the entity will incur cash outflows to replace them. However, in circumstances where the PBE does not charge for use of the asset/item (albeit that it could), cash outflows to replace the item may not always be necessary. For example:
 - an item that is held by a PBE which is unique and could not be replaced, and will not be replaced. (Particularly if the entity is legally constrained from doing other than maintaining the item); or
 - a physical item/asset settled upon a limited life trust which the trust is required to make available for the life of the physical asset (which will simultaneously be the life of the trust). There are no other cash flows associated with the item.

The Report to the NSS-4 notes that it would be useful for the definition to be supported by additional explanation/clarification of whether it is sufficient that the entity can avoid future cash outflows because it already has the item that is necessary for it to achieve its objectives (and so does not have to incur a cash outflow in the future to acquire it), and raises concern about whether the following would qualify as assets under the proposed definition:

- Heritage items which have utility for an entity in assisting it to achieve the entity’s objectives when access to the asset is freely available for all (as part of a museum collection), its sale is restricted and it cannot be replaced; and

- Public roads controlled and maintained by a public sector entity, which will not give rise to cash inflows of the controlling public sector entity, but may give rise to cash inflows or reduction of cash outflows of another entity.

Draft Definition of a liability

The IASB-FASB staff have developed the following definition of a liability as a mirror image of the asset definition. (This definition of a liability is also under development.)

A **liability** is a present economic burden for which the entity has a present obligation.

- a) *Present* means that both the economic burden and the obligation exist on the date of the financial statements.
- b) An *economic burden* is something that has negative economic value. It is capable of requiring the sacrifice of economic resources. An economic burden can require cash outflows or reduce cash inflows, directly or indirectly, alone or together with other economic burdens. Economic burdens include non-conditional contractual promises that the entity makes to others, such as promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.
- c) An *obligation* requires the entity to bear the present economic burden directly or indirectly. Obligations are legally enforceable or enforceable by equivalent means (such as by a professional association).

The Report to the NSS-4 identifies the key issue from a PBE perspective as what is a “present obligation”. It notes that the range of circumstances in which governments make commitments is very broad and in respect of sub paragraph c) of the definition, it is arguable whether limiting liabilities to those which are legally enforceable or enforceable by equivalent means is in the interests of users of the governments GPFR.

Distinguishing between liabilities and equity

IASB-FASB staff explore whether a hard-and-fast “bright line” (definitions/concepts that establish a clear and firm distinction) can and/or must be drawn between liabilities and equity, noting:

1. Re whether a hard-and-fast bright line can be drawn between liabilities and equity – legal form may not represent and may override accounting concepts in practice, and establishment of a bright line may have unintended consequences with form overriding substance (e.g. leasing standards). In addition, the range of debt and equity instruments (and the merging of their features and characteristics) blur the distinction. That is, it may not be possible to establish a bright line that results in faithful representation of the items either side of that line; and
2. Re whether a distinction is necessary – IASB-FASB staff explore entity and proprietary views of the entity; note shareholders and creditors have many similar characteristics (particularly for public corporations); raise whether more than two elements or only a single element should be developed to encompass what is now intended to be categorized as either

liability or equity (rather than attempt to draw a bright line between them); and consider presentation/display issues and opportunities.

This aspect of the IASB-FASB project will continue to be developed.

The Report to the NSS-4 notes that:

1. the nature of equity in most PBEs is inherently different to that in private sector businesses. The residual after deducting liabilities from assets (“public equity”) is the net resources which a government holds to enable it to continue to undertake the activities of government, including the provision of services. Specific interests in the residual are extremely rare.
2. The case for exploring alternative approaches (rather than attempting to better distinguish liabilities and equity) is not as strong for PBEs as it is for business entities in the private sector. Rather, the primary issue for PBEs is whether various obligations of governments are in fact (present) liabilities and, for both governments and other PBEs, whether appropriate messages are communicated by the financial statements (and in particular the statement of financial performance) through application of the liability definition.

The Reporting Entity

The Report to the NSS-4 notes that while the views of the IASB and FASB converge on most issues, in respect of the concept of the reporting entity the Boards have in the past reached different conclusions on whether:

1. The parent and group entity are one and the same entity, or two different entities – this has implications for whether or not general purpose external financial reports (GPEFR) should be prepared for the parent as a separate entity as well as the group (or a subgroup controlled by an “intermediate” parent); and
2. A group entity should comprise a controlling entity and other entities under its control, or whether the control concept should be extended such that a group entity could also include entities subject to common control (without all parent entities being in the group).

At the December 2006 IASB meeting, some IASB members indicated that as a result of further clarifications their earlier views may have changed. Staff will develop materials for the Discussion Paper and the IASB - FASB will revisit this issue in the light of that material.

At the December 2006 meeting the IASB also tentatively agreed to include discussion of the parent entity approach to the preparation of consolidated financial statements in the discussion paper.

The Report to the NSS-4 also notes that while consistent in most cases, there is potential for decisions reached in the reporting entity phase of the Conceptual Framework Project to differ from decisions in the IASB’s Consolidations Project which is also under development. IASB-FASB staff papers identify the major areas where there is currently the potential for divergence as follows:

(a) Whether the parent entity and the group constitute separate reporting entities.

At present, IAS 27 “Consolidated and Separate Financial Statements” neither requires nor prohibits the preparation of parent only (separate) financial statements. However, if such financial statements are prepared, IAS 27 specifies various requirements that must be applied. (This approach is reflected in IPSAS 6 “Consolidated and Separate Financial Statements”.)

Consistency between the Conceptual Framework and the Consolidations Project will turn on whether the Conceptual Framework Project identifies the parent and group entity as one and the same entity or two separate entities, and whether the consolidation standard project reflects that view – that is, whether what the consolidation standard specifies in respect of the preparation of separate financial statements for the parent entity as well as the group, and the nature of any such financial statements, is consistent with the reporting entity view reflected in the Conceptual Framework.

(b) The definition of control being developed in each project.

Both the Conceptual Framework and Consolidation Projects reflect that a definition of control should include both a power element and a benefits element (this approach is also adopted in the current IPSASs). The definition of control in the Conceptual Framework Project is currently as follows, but may evolve further:

Control of an entity is the ability to direct the financing and operating policies of an entity, so as to access benefits flowing from that entity (and/or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (and/or reduce the amount of those losses).

The focus of this definition is on control over another entity through the ability to direct the financing and operating policies of the entity and access the benefits of the controlled entity.

The definition of control in the Consolidations Project is currently as follows (this definition may also evolve further):

An entity has a controlling interest in another entity when it has exclusive rights over that entity's assets and liabilities which give it access to the benefits of those assets and liabilities and the ability to increase, maintain or protect the amount of those benefits.

The focus of this definition is on identification of the assets that the group has rights to and responsibility for, and can benefit from (rather than on the ability to direct financing and operating policies of the entity). This definition focuses on the consequences of power over financial and operating policies, it also allows for control of assets and liabilities to arise even when the entity is not controlled – for example, in respect of leasing and special purpose entities.

At its December 2006, meeting the IASB noted matters of consistency of definitions in this and the Consolidations Project would be considered after further developing its views on the parent/group entity issue for inclusion in the Conceptual Framework Project. Subject to any further issues arising from IASB-FASB discussions, the next step is to develop and issue the IASB Discussion Paper.

In respect of the definitions of control, the Report to the NSS-4 raises a concern about the consequences of applying the definition based on the “ability to direct the financing and operating policies of an entity” in the public sector context (particularly in respect of autonomous and independent public sector entities). The report also notes that while a definition which focuses on “control of the assets and liabilities” may be less problematic for PBEs, it will not resolve all the issues.

The Report then summarizes issues raised previously about the identification of the reporting entity in the public sector, in particular whether (and when):

1. Reporting is necessary at a level below the ultimate controlling entity;
2. It is appropriate for a core government entity to report;
3. Reporting at the level of Ministers (or equivalents) is appropriate (and the nature of such reports) ;
4. Statutorily autonomous and independent entities in the public sector should be consolidated;
5. Full consolidation is always necessary for all entities within the group (i.e. is there a role for the modified equity method to combine GBEs); and
6. Common control, which may be the IASB concept of control, is appropriate for PBEs if the objective of financial reporting is much more strongly driven by accountability.

Reporting Entity - comments from some NSS-4 members

Comments from some NSS-4 members in response to the Report on developments in the reporting entity phase of the IASB-FASB project note that the following matters have particular public sector significance, are likely to raise public sector specific issues and could usefully be further explored and developed in the public sector framework project:

1. Which entities should be designated as reporting entities (and the characteristics/factors which will inform that decision); and
2. The definition of control and indicators of control, including whether regulation or financial dependence results in control.

ATTACHMENT - SUMMARY OF ISSUES RAISED IN PREVIOUS NSS MONITORING REPORTS

ISSUES FROM FIRST, SECOND AND THIRD NSS MONITORING REPORTS (included in Agenda papers for IPSASB meeting in Cape Town, December 2006)

Process - the IASB-FASB intend to initially focus on a framework for private-sector business entities, and at the end of that process consider not-for-profit (NFP) entity (including perhaps public sector) issues. This is an inefficient process as all the concepts will need to be re-debated from the NFP perspective and raises doubts about whether decisions once made from a “for profit” perspective will be revisited for NFP implications;

Objectives of financial reporting:

- the proposed revised objectives which focus on decision usefulness do not give sufficient acknowledgement to accountability/stewardship which is a fundamental public sector principal; and
- The identification of users as present and potential investors is too narrow for the NFP and public sector. Similarly, the focus on reporting information that assists users to evaluate the effects of past or future events on future net cash inflows (or confirm or corrects previous evaluations of such) is also too narrow for the NFP and public sector, and has implications for the boundaries of financial statements.

The focus of the objectives (assessing/confirming cash flows) and users (investors, potential investors, creditors and others to make investment and credit decisions) remains very much on private sector business entities. The focus on information to assess cash flow prospects is elevated above information about financial performance, financial position, service performance and compliance with statutory authorities. As noted above, stewardship and accountability are not identified as “first order” objectives.

The focus on financial reporting, rather than financial statements means the framework encompasses financial statements, other financial information and non financial information, and this is a positive from the public sector/not-for-profit-perspective perspective.

The IASB is likely to move directly to an exposure draft (ED) (tentatively scheduled for issue March 2006) dealing with “Objectives” and “Qualitative Characteristics”, rather than first issuing a discussion paper as was initially contemplated. There is a concern that this will provide less opportunity for the national standards setters and others to influence the material from a public sector/not for profit entity perspective.

The Preface to the IPSASs notes that Government Business Enterprises (GBEs) apply IFRSs. The current IASB-FASB work does not highlight any matters that might be of particular importance for GBEs and it is not clear whether the IASB-FASB will explicitly consider whether social policy obligations, the legislative framework, and/or compliance or other matters might impact on the operations of GBEs raise issues that need to be considered/identified in the development of the IASB Conceptual Framework; The IPSASB has written to the IASB to raise this matter.

Whether there should be differences in objectives, user information needs and qualitative characteristics for smaller or non-publicly accountable entities (NPAEs). No differences are identified at this stage. The Consultant expresses concern that the consideration of this area has

not been as thorough as it might have been. (All discussion, of course, is in the context of private sector business entities).

The explanation of the qualitative characteristics components and process has improved with further development, and the approach itself is supported. However, it needs further development from both standards setters and preparer perspectives before it is ready for exposure.

Papers considered by the Boards do not identify the role/authority of the framework in GAAP hierarchy.

Communications between NSS and the IASB-FASB

In October 2005, the Chairs and senior staff of the NSS wrote to the IASB proposing that the IASB consider the applicability of the framework material to not-for-profit entities as part of its ongoing review, rather than at the end of the project. This proposal was discussed by the IASB but ultimately rejected.

ISSUES FROM FOURTH NSS MONITORING REPORT (included in Agenda papers for IPSASB meeting in Tokyo, July 2006)

The role/nature of costs and benefits in the qualitative characteristics:

Papers being considered by the IASB do not deal with the costs (or benefits) that should be included in any analysis. Similarly, whether the costs and benefits might differ for different types of organizations is not addressed. This may follow given that previous IASB-FASB papers on qualitative characteristics of financial reports have considered whether those characteristics would differ for different types of organizations, for example small or medium enterprises.

The IASB paper proposes that the Boards should commit to requesting more information from preparers, users and other constituents about their expectations about costs and benefits of the proposed standards. This makes sense, albeit that it may prolong the due process.

B The definition of an asset

The definition of an asset proposed by the IASB-FASB staff is “An asset of an entity is a present right, or any other access, to an existing economic resource with the ability to generate economic benefit to the entity”.

This is different from the current IASB definition and the current IPSASB definition and may have significant implications for public sector entities. The meaning of such terms as “an existing economic resource”, “present right or any other access” and “economic benefits” will be significant when considering application to public sector entities. They will influence whether a number of rights which public sector entities have access to qualify as an asset. These may include, for example, fishing quotas, radio frequencies and the right to tax. They may also have implications for dealing with service concession arrangements and heritage assets.

C Preliminary views in the notion of a reporting entity

The current IASB Framework does not include a robust explanation of the reporting entity concept. It is intended that as part of this project the Framework will clearly articulate the reporting entity concept adopted by the IASB. The IASB and FASB staff have commenced the process of identifying key aspects of the reporting entity for consideration by the Boards.

Aspects identified so far include that:

- A distinction should be made between an “entity” and a “reporting entity” – that is, not all entities may qualify as reporting entities.
- The capacity to undertake activities, including undertake transactions with other parties, is the defining characteristic of an “entity”, irrespective of its legal form.
- The identification of an “entity” as a “reporting entity” should be linked to user information needs which in turn are linked to the objectives of financial reporting.
- At the general level the purpose of consolidated accounts should be to provide information about the group that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar economic decisions.

Linking the identity of the reporting entity to the objectives of financial reporting and user needs seems sensible, at least as a starting point in any deliberations. However, as identified in previous reports to the NSS-4, of particular concern to the public sector is that the objectives being proposed by the IASB-FASB at this stage do not give sufficient acknowledgement to public sector factors, such as accountability, and identify users as present and potential investors and creditors. The identification of objectives and users in these terms is too narrow for applicability to public sector non business enterprises.

Government Business Enterprises

The IPSASB Chair wrote to the IASB:

- noting that Government Business Enterprises (GBEs) were subject to IFRSs and therefore the IASB Framework; and
- encouraging the IASB to explicitly consider whether social policy obligations or other obligations that may be imposed on GBE's by their controlling government raised any specific issues that needed to be dealt with in the conceptual framework.

ISSUES FROM FIFTH, SIXTH AND SEVENTH NSS MONITORING REPORTS

(included in Agenda papers for IPSASB meeting in Paris, July 2006)

The definition of a liability (from 5th and 7th reports)

A preliminary definition has been proposed by IASB-FASB staff as:

“Liabilities of an entity are its present obligations to other entities that compel potential outflows or other sacrifices of economic benefits.”

This incorporates some significant changes (both wording and substance) from existing liability definitions. Significant issues for public benefit entities include:

- potential outflows or other sacrifices include not only outflows of cash or other assets, but also forgone inflows of cash or other assets;
- the notion of *little alternative to avoid* is replaced with notions of *compel potential outflows*
- the notion of a “stand ready” obligation comes into play

The IASB and FASB have confirmed their support for the general approach of the definition.

The IASB and FASB continue to explore alternative approaches to the definition, commencing with the most basic form and progressively building in detail. In the most basic definitions, which are those recommended by staff, the bulk of the explanation is left to amplifying text.

The recommended definition is: “A liability is a present economic obligation of an entity”.

The NSS monitoring report noted that with appropriate commentary it is likely that the definition could apply to the public benefit entities.

The definition of an asset (from 5th and 7th reports)

The definition of an asset continues to evolve. The following revised working definition was put forward for consideration by the IASB-FASB:

“An asset of an entity is: (a) cash held by the entity; (b) a present right of the entity to cash; or (c) a present right or other present privilege of the entity to a resource that is capable of generating economic benefits to the entity, either directly or indirectly.”

This definition incorporates further changes from existing definitions which will need interpretation in the public benefit entity context including the notion of a “stand ready” asset which may arise under this definition. The NSS monitoring report noted the need to include cash or a present right to cash in the definition itself raises a concern – would these not satisfy the definition of an asset unless specifically included in the definition? (Subsequently the IASB-FASB confirmed that these not be included. The IASB-FASB also agreed that references to directly or indirectly should be included in the commentary rather than the definition.)

As for liabilities, the IASB and FASB continue to explore alternative approaches to the definition, the most basic form which is recommended by staff is “An asset is a present economic resource of an entity.” Explanations then appear in commentary.

The reporting entity (from 6th and 7th report)

The concept of the reporting entity is also taking shape with the IASB and FASB identifying the following key characteristics so far (consideration of other characteristics continues) - the reporting entity concept should:

- focus on determining the boundaries of the reporting entity, for both an individual reporting entity and a group reporting entity; and
- not be limited to those entities that have external users who are unable to demand the information they require and therefore must rely on information provided by the entity.

The NSS monitoring report expressed concern that it appears that the concept of a reporting entity will not be linked to the objectives of financial reporting, and therefore user needs, and that at the concepts level the Boards will not express a view on who is required to report – rather this will be a matter for authorities in each jurisdiction.

A preliminary definition of an entity is proposed as: “An entity is an economic unit that has the capacity to deploy resources.”

The NSS monitoring report noted that this implies that for financial reporting purposes an entity is broader than a legal entity (economic unit), has observable boundaries and can be distinguished from other parties that have an interest in it (such as investors and creditors) and has a management function to enable it to engage in business activities, such as acquiring and disposing of assets, incurring and settling liabilities, purchasing or selling goods and services and, more generally, engaging in transactions with other parties.

Further research is to occur on whether a parent only entity is a reporting entity; and whether the boundaries of a group reporting entity should be based on a concept of control, for example, a concept that might encompass entities under common control.

The IASB-FASB staff view is that the parent entity and the group entity are two separate entities and that separate financial statements of the parent entity are insufficient to satisfy user needs.

The NSS monitoring report agreed with this view but noted it is not clear that this flows naturally from the definition of an entity.

The IASB-FASB staff view is that the conceptual framework should define, or at least contain some discussion of, the meaning of control and that such a definition needs to include both a power and benefit component: The following working definition from the IASB Consolidation Project is being used as a basis for further consideration:

“Control of an entity is the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits.”

The NSS report notes that some complex issues arise in the PBE sector in relation to the ability to direct the other entity’s financing and operating policies. It also notes that caution must be exercised in the development of any definition to ensure that the regulatory power of a government entity does not give rise to control and consolidation where such is not appropriate.

The IASB-FASB agree with the broad approach proposed by their staff, but noted that consideration of latent control may well raise other issues. Board members also noted that whether to use control or a broader or different concept to determine the boundaries of a group reporting entity is still to be addressed - some board members expressed a preference for a risks and rewards model, while others prefer a control model.

Distinguishing Liability from Equity

The IASB-FASB staff take the view that a distinction should be drawn between liabilities and equity based on whether they do or do not obligate the entity to transfer its economic resources to others or stand ready to do so. Staff also take the view that equity should not be defined explicitly but should be a residual.

The definition put forward by staff after reviewing work in many jurisdictions and considering positions reached on the other elements is: “Equity is the residual interest in the assets of an entity after deducting its liabilities.”

These views are supported in the NSS monitoring report, which notes that the IPSASB uses the term “net assets/equity” and defines it similarly as “the residual interest in the assets of the entity after deducting all its liabilities”.

Measurement 1: Planning

The IASB-FASB commenced consideration of a plan for the measurement portion of the Conceptual Framework Project. IASB-FASB staff noted there is a gap in the frameworks in relation to measurement and this is an area where more than convergence/improvement of the existing frameworks is called for. Staff propose that the key milestones in the project are as follows:

- I: Defining and Describing the Properties of Measurement Bases;
- II: Evaluating Measurement Bases Using the Qualitative Characteristics;
- III: Conceptual Conclusions and Practical Applications.

Measurement is likely to be a particularly contentious. Therefore, it is proposed that each phase be accompanied by the issue of due a process documents and extensive consultation if appropriate. This phase is proposed to be completed by December 2010.

The NSS monitoring report supports the process, but proposes that the timelines be shortened.

ISSUES FROM NSS MONITORING REPORTS HIGHLIGHTED IN EIGHTH, NINTH, TENTH and ELEVENTH REPORTS (included in Agenda papers for IPSASB meeting in Norwalk USA, November 2006).

Reports 8, 9 and 10 to the NSS-4 continue to develop and explore implications and consequences of definitions of assets and liabilities. Report 10 deals primarily with the development of notions of the reporting entity, and Report 11 considers such matters as what is an “element” of financial statements, planning the next phases of the framework development (such as recognition and measurement) and the process for finalization of the framework.

Assets and liabilities

The IASB-FASB staff recommend that an asset be defined as follows (this is a working definition which may develop further):

“An asset is a present economic resource to which the entity has a present right or other privileged access.”

Under this definition, an asset has three essential characteristics:

1. There is an economic resource of an entity.
2. The entity has rights or other privileged access to the economic resource.
3. The economic resource and the rights or other privileged access both exist at the financial statement date.

All three characteristics must be met for an item to satisfy the definition of an asset. The IASB-FASB papers elaborate on these characteristics and explain that economic resources are the “scarce means that are useful for carrying out economic activities, such as consumption, production and exchange. They have the capacity to eventually result in cash inflows to the entity or a reduction in cash outflows from the entity.”

The major issues identified as of potential concern for public benefit entities (PBEs) include:

- a need for a better understanding of what constitutes an “economic” resource, whether “resources” alone would be more suitable for PBEs, and the meaning of the reference to “reduction in cash outflows” in the explanation of economic resources.
- explanation that an economic resource which generates cash flows (economic benefits) that only go elsewhere (not to the reporting entity) is not an asset of the reporting entity - for example, where a public sector reporting entity enters a contract for a third party to deliver food parcels, there is a liability to the third party but the right to have the food parcels delivered next month may not be an asset. Concern is also raised about assets owned by Governments (at different levels) to provide benefits to the “society as a whole” in a particular geographic location.

- How rights or other privileged access to the economic resource might arise. The papers note that legally enforceable rights can be obtained without having ownership as in the case of contractual rights. This of course may well have implications for a government's ability to create assets such as fishing quotas, radio spectrum rights etc.

An initial working definition of a liability is identified as follows:

“A liability is a present economic burden for which an entity is presently obligated.”

A liability of an entity has three essential characteristics:

1. There is an economic burden.
2. The entity is obligated to meet the economic burden.
3. The economic burden and the obligation both exist at the financial statement date.

This is very much an initial definition with IASB-FASB staff noting that they wish to further develop and consider the implications of the definition before making recommendations to the Boards.

However, it is noted that a binding contractual arrangement between unrelated parties in which the parties exchange promises can create assets and liabilities for each party. A unilateral promise, such as an agreement to make a non-reciprocal transfer, would also create assets and liabilities – in this case, an asset for only one party and a liability for the other party.

The reporting entity.

The IASB and FASB have decided they do not wish the reporting entity concept to specify which particular entities should be required (or encouraged) to prepare general purpose external financial reports (GPEFR). Rather, any entity that chooses to, or is required to, prepare a GPEFR will be a reporting entity.

The Report notes that this means that:

- national standard setters will need to consider whether to specify the entities in their own jurisdictions that should report (where they have that responsibility) or alternatively to advise regulators/legislators (or similar) about these matters.
- the IASB conceptual framework will provide little meaningful guidance to address issues related to PBEs that are reporting entities and the IPSASB may need to consider its approach to this issue in the early stages of its Conceptual Framework Project.
- the focus of the IASB framework is on what should be reported by entities which are identified as reporting entities, including such matters as: When should consolidation occur? Why do some jurisdictions require parent-only financial statements, others require consolidations, and yet others may want combinations?

The IASB-FASB papers also consider whether control or a risks and rewards model is the right basis for consolidation - noting particularly issues with special purpose entities (SPEs), (and conclude that on balance, it is). The IASB-FASB papers also include a working definition of control (see below), and considers implications of the definition for such matters as temporary control (control exists even if temporary), latent control (the entity must have the present ability

to control, not a future ability dependent on some actions it might take), and the nature of control (only one entity can control so situations of joint control should not be termed “control”):

The working definition of control is: “Control of an entity is the ability to direct the financing and operating policies of an entity, so as to access benefits flowing from that entity (and/or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (and/or reduce the amount of those losses)”.

The Report to the NSS-4 expresses disappointment that the IASB framework will not include a definition of reporting entity and notes that from the PBE perspective there is a need to clarify that regulatory power and purchase power do not establish control. The report also notes a concern about the model for consolidation that appears to be favoured. (The “common control” model for consolidation which is preferred by IASB-FASB staff appears to provide that, in principle and subject to Board' deliberations in particular circumstances, individual controlled entities may be required to prepare “some form of group accounts”. The Report expresses concern that this does not establish principles that will flow into standards – rather it allows choices when developing standards.)

Staff propose moving forward by drafting a preliminary views discussion paper on the reporting entity. However, the report to NSS raises concern that it is not entirely clear what the concepts are that are being proposed and, in particular, how they will interrelate with one another as part of a chapter in a conceptual framework.

Elements

The IASB-FASB papers recommend that elements should be defined in terms of the economic things (resources and claims) and changes in them that pertain to a particular entity; and the elements definitions should focus on the most basic of the real world economic phenomena that pertain to an entity.

The Report to the NSS-4:

- expresses the view that the recommendations fall short of establishing a clear understanding of what an element is;
- raises a concern that as explained, additional elements such as those relating to reporting service efforts and accomplishments may be precluded from qualifying as an element; and
- proposes that a distinction between financial elements and non-financial elements may be useful, particularly for PBEs

Process for finalization of the IASB-FASB framework

The IASB-FASB staff recommend that chapters of the framework be issued when finalized, rather than holding issuance of the framework back until fully finalized. The IASB-FASB papers explore the strengths and weaknesses of this approach and conclude that the merits of issuing the framework chapter by chapter as finalized (which include avoiding Board turnover problems and allowing constituents to understand implications of changes to the framework over time) outweigh the drawbacks (which include the potential need to revise chapters to ensure consistency with subsequent developments). It also so avoids the potential operating procedure concern surrounding whether to use the “old” framework or components of a “new” framework

which have been finalized – this concern would arise if the components were not issued until the full framework had been finalized.

The Report to the NSS-4 supports this approach. It notes it is also likely to assist IPSASB by providing fixed points of reference for IPSASB to use in considering the applicability of the IASB framework to the public sector and in developing a framework that is appropriate for public sector PBEs.

(IPSASB Staff Note: We understand that the IASB-FASB have agreed to adopt this recommendation and finalize the framework on a chapter by chapter basis.)

IASB-FASB Status report

An update on progress is provided. It indicates that, as with many major projects, slippage in timing will occur and an IASB/FASB preliminary views paper on the elements of financial statements is unlikely to be published until the fourth quarter of 2007. It also notes that there may be some target consultation on the definition of an asset based on staff papers/views. (This may have some implications for the timing of this component of the IPSASB project, given that the preparer of the draft paper will want to consider the definitions being developed by the IASB and their applicability for the public sector.)

Measurement

The IASB-FASB staff prepared papers identifying, defining and describing a comprehensive set of measurement bases, as the first substantive steps in the measurement phase of the project. The objective of this stage is to have a common measurement bases vocabulary in place, covering models/approaches under historical measurement bases, current measurement bases future measurement bases

The Report to the NSS notes that the analysis in the staff papers and the measurement bases put forward are likely to be helpful in progressing the measurement phase of the project - but exchange transactions underlie the discussion, while most public benefit entities have a significant number of non-exchange transactions. Accordingly it will be important to monitor this feature of the PBE environment as the measurement phase progresses. Additional issues identified for consideration in the measurement phase of unique or particular significance in the public sector include: restrictions on the sale of items, the existence of unique assets which may create difficulties in relation to a number of the measurement bases and the general issue of non-exchange transactions, network and infrastructure assets and renewal accounting.

December 2006

International Public Sector Accounting Standards Board

Public Sector Conceptual Framework

**Project Brief: Collaborative project of the IPSASB and
National Standards Setters and similar organizations.**

Introduction

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that it would initially develop a credible core set of IPSASs, and build its knowledge of concepts in conjunction with the development of specific standards.

Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances. The IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the Financial Accounting Standards Board of the USA.

The IPSASB is of the view that it is now timely to develop a framework for general purpose financial reporting by public sector entities to make explicit the concepts that underpin financial reporting in the public sector.

At its meeting in Paris in July 2006, the IPSASB met with representatives of a number of National Standards Setters and similar organizations (NSSs) from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America to discuss working collaboratively on the development of a public sector conceptual framework. Also participating in the discussion were members and/or staff of the Public Sector Committee of the Fédération des Experts Comptables Européens (FEE), the International Accounting Standards Board (IASB), the Task Force on Harmonization of Public Sector Accounting (TFHPSA) and Eurostat.

At that meeting, it was agreed that the IPSASB would lead a collaborative project to develop a public sector conceptual framework in conjunction with a number of participating NSSs. Accordingly, this project brief was developed in conjunction with the NSS and establishes the major characteristics of the project and the proposed process for its development. As for any long term project, the process is evolutionary and it may be necessary to update and or refine particular components with the benefit of experience. This applies to timing of key milestones and the contents of individual consultation papers. Any comments on this project brief, including the components of the framework, and its proposed authority and scope, or other aspects of the project may be directed to IPSASB staff and will be considered by the IPSASB and/or its sub-committee as the project progresses.

The project will be coordinated by a sub-committee comprising IPSASB and NSS members. A broad based group of NSSs will monitor project development on an ongoing basis. NSS participants will have primary responsibility for preparing first drafts of consultation papers. The subcommittee will review first drafts of consultation papers and other documents developed as part of this project and provide input for their further development. The consultation papers and other documents will then be provided to the IPSASB for review and, approval in accordance with the IPSASB's due process.

Membership of the subcommittee and monitoring group is included as Attachment 2 of the project brief.

Preliminary work on certain components (for example, objectives and qualitative characteristics, which are common components of most, if not all, frameworks) will commence in early 2007.

INTERNATIONAL FEDERATION OF ACCOUNTANTS
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
DRAFT PROJECT BRIEF (UPDATE SEPTEMBER 06)

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities
(*The Public Sector Conceptual Framework*)

BACKGROUND

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that it would initially focus on developing a credible core set of IPSASs that could be adopted by those entities seeking guidance on financial reporting issues. This approach was supported by the funders of the standards setting program. It also reflected the approach of many standards setters - that is, to develop their knowledge of concepts in conjunction with the development of standards before formally developing and publishing a Conceptual Framework.

Many concepts, definitions and principles are embedded in specific IPSASs. However, a document which draws together and makes explicit these concepts, definitions and principles, and identifies, explains and tests their interrelationships has not been articulated and issued.

The need for an IPSASB Conceptual Framework has been recognized by IPSASB members and observers, by the IPSASB Consultative Group and by others in the financial reporting community. It is an important component in the literature of standards setters around the world, will reinforce the ongoing credibility of the IPSASB and will support efficient and consistent decision making by the IPSASB.

PROJECT OBJECTIVE

The objective of this project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities, including but not necessarily limited to financial statements and notes thereto. In developing this Conceptual Framework, the IPSASB and its subcommittee will consider the information that may be included within general purpose financial reports in addition to financial statements and notes thereto, and the implications of any such information for each component of the Framework as appropriate.

PROJECT FOCUS

It is intended that the Public Sector Conceptual Framework will be developed primarily for public sector entities other than Government Business Enterprises (GBEs). GBEs are profit seeking entities. As noted in the "Preface to International Public Sector Accounting Standards", GBEs apply IFRSs issued by the International Accounting Standards Board (IASB) and are therefore subject to the IASB's "Framework for Preparation and Presentation of Financial Statements" (the IASB Framework).

The operating/performance objectives of profit seeking entities in the private sector focus on sustainable long run profit maximization within operating parameters established by legislation and legal and social norms and, in most cases, with the objective of being good corporate citizens. However, the performance objectives of GBEs often also include the achievement of certain non-profit/social policy objectives imposed on them by governments. Their operations are therefore subject to, and conditioned by, the achievement of these

service delivery objectives. In the development of the Public Sector Conceptual Framework and the revised IASB Framework, the IPSASB and the IASB will need to consider whether the social policy/service delivery objectives that GBE's may be subject to will influence the objectives of financial reporting by GBE's and/or other components of the conceptual Framework that applies to them.

IPSASB DUE PROCESS

The IPSASB follows a formal due process for the development of IPSASs. That process involves the preparation and issuance for comment of an exposure draft (ED) that identifies the proposed requirements of an IPSAS and consideration of responses to the ED in the process of finalizing the IPSAS. The due process may also include the issuance of consultation papers prior to the development of an ED.

The development of the Conceptual Framework will be subject to this due process, with consultation papers and an ED of the proposed Framework being developed and issued for comment. Comments received will then be fully considered in the process of finalizing the Framework.

As noted below, the Public Sector Conceptual Framework will be developed as a collaborative project with other national standards setters and similar bodies, which may also have their own due process. Documents developed as part of this project and issued by the IPSASB may also be issued by national bodies be subject to their national due process.

COLLABORATIVE PROJECT

The IPSASB will lead the Conceptual Framework project in collaboration with national standards setters and similar authoritative bodies which have responsibility for financial reporting by public sector entities in their jurisdiction (the term NSS is used in this document to encompass all such national standards setters and similar bodies that are party to the collaborative project).

Actioning the development of the Framework as a joint project with a number of NSS in IPSASB member and other jurisdictions provides the opportunity for the development of a substantially harmonized Conceptual Framework across a number of jurisdictions, provides the opportunity for the IPSASB to be informed by the work already undertaken at the national level in many jurisdictions, and has the potential to be a resource efficient mechanism for all that are party to it.

Mechanisms for the development of draft documents, the role of the NSS in the project and the operation of the collaborative process are explored further below.

RELATIONSHIP OF THE PUBLIC SECTOR FRAMEWORK DEVELOPED BY IPSASB TO THE IASB FRAMEWORK AND FRAMEWORKS IN IPSASB MEMBER JURISDICTIONS

Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances.

Attachment 1 summarizes the result of a brief survey of IPSASB members (in February 2006) regarding the existence, nature and contents of Frameworks in place in their

jurisdictions. It indicates that Frameworks are in place or under development in a number of member jurisdictions. It also indicates that those Frameworks have a similar coverage in respect of scope, nature and content.

While most, if not all, of the components of the IASB Framework are likely to be relevant for the IPSASB's Framework, the objective of this project is not simply to interpret the IASB Framework for application to the public sector. Rather, the objective is to develop the IPSASB's own Framework using the work of the IASB and other standards setters as appropriate.

It is then appropriate to consider whether all matters dealt with in the IASB Framework, and the way in which those items are dealt with, is appropriate for the public sector. It is also appropriate to consider whether additional matters such as disclosure of budget information, reporting performance against budget and disclosure of non-financial performance indicators should be included in the IPSASB Framework.

The IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the FASB. A group of 4 national standards setters (NSS-4) with public sector responsibilities is currently monitoring the IASB-FASB joint project and preparing papers that draw out implications of proposed amendments to the IASB Framework for not-for-profit entities in the public and private sectors. An IPSASB subcommittee is an observer on that NSS-4 group. The monitoring process has identified that in some cases the current draft changes being proposed to the IASB Framework do not appear to fit well with public sector needs. The collaborative project will draw on the work already done by the NSS-4 group of standards setters as appropriate.

RESOURCE REQUIREMENTS AND PROJECT DEVELOPMENT

The development of a Conceptual Framework is a long term project. The original IASC Framework project was commenced in the early eighties with a series of separate projects on, for example, objectives, assets and liabilities. It was then brought together as a Framework project in the mid 1980's and finalized and issued in 1989.

The current IASB-FASB project was actioned in late 2004 and was originally scheduled for completion in 2010, though the time frame will be modified/extended if necessary during the developmental process. Significant IASB-FASB staff resources and Board meeting time are being allocated to the current project.

The IPSASB Conceptual Framework project is also likely to be resource intensive, in terms of both IPSASB meeting time and member and staff resources. The IPSASB already has a heavy work program and additional projects are being considered for inclusion on the active work program from 2007. A project schedule identifying key milestones in a collaborative Conceptual Framework project is included later in this project brief. It anticipates completion of the Framework in 2011 and its publication in 2012. This is a demanding timeframe and will be monitored as the project develops.

The project development process and IPSASB meeting time allocation proposed in this project brief is intended to deliver key outcomes of the project (initial consultation papers, an exposure draft of the proposed Framework and the final Framework) in a timely and efficient manner within the resource capabilities of the IPSASB and of the participating NSS. It

envisages that the participating NSS provide staff resources for the project on a “per task” basis, and that the IPSASB:

- (a) Allocate one half day of each meeting during 2007, 2008, 2009, 2010 and 2011 as necessary to progress the project. (The IPSASB meets three times a year for 3 to 4 days.);
- (b) Use a subcommittee (comprising IPSASB members and members of the NSS) to undertake initial review of papers and other materials being prepared for IPSASB consideration;
- (c) Allocate the equivalent of approximately .333 of a full time IPSASB staff member to the project - including the time of the IPSASB Technical Director and other IPSASB staff to oversee development of the project and to work with the subcommittee and NSS staff in the capacity of project co-ordinator. The IPSASB staff will:
 - Support the subcommittee chair in co-ordinating materials for subcommittee meetings, in reporting progress to the IPSASB, in providing IPSASB feedback to the subcommittee and to the authors of the consultation papers;
 - Raise specific technical matters for consideration by the subcommittee and the IPSASB as appropriate; and
 - Assist NSS staff and others in presenting materials to the subcommittee and the IPSASB; and
- (d) Make use of additional consultants as the project demands and resources allow.

The IPSASB subcommittee

The IPSASB subcommittee will operate to implement the directions of the IPSASB and to ensure that documents prepared for IPSASB consideration are balanced and identify viable options and approaches to different concepts. In this context, it will undertake initial review of materials being prepared by NSS staff for discussion at IPSASB meetings, and provide input to the further development of those materials as appropriate. The subcommittee will also ensure that papers for IPSASB review are prepared on a timely basis, are circulated to the NSS who are party to the collaborative project as subcommittee or monitoring group members and, through the subcommittee chair, will report to each IPSASB meeting on progress.

The major characteristics of the subcommittee and its operating procedures, including its interaction with the IPSASB and NSS, are outlined below:

- (a) Composition of the subcommittee – the subcommittee will be broadly based, representing the wide IPSASB constituency to the extent possible. It will comprise 4 to 5 IPSASB members and representatives of the national standards setters who provide staff resources to lead development of specific components of the project. (Technical advisors to subcommittee members, including the NSS staff responsible for specific project tasks, will also be welcome to participate.) The subcommittee will be chaired by the IPSASB chair if possible, or other IPSASB member if not.

The subcommittee membership is identified at attachment 2. This is a long term project and membership of the subcommittee may change over time;

- (b) Working procedures – the IPSASB will establish broad parameters for each stage of the project based on a key decisions or similar issues paper prepared by an NSS member as agreed. That NSS will then be responsible for preparation of drafts of key documents which will be subject to initial review by the subcommittee. The

- subcommittee chair and/or the responsible NSS will then present papers, together with subcommittee comments thereon, to each IPSASB meeting. The subcommittee chair will also provide a report on progress on other papers at each IPSASB meeting;
- (c) Subcommittee materials – papers for subcommittee review will be developed by an NSS consistent with directions of the IPSASB as per above. All subcommittee papers will also be made available to all IPSASB members and a designated member of other of the participating NSS with an interest to monitor developments. These papers will be made available through the IPSASB web page;
 - (d) Subcommittee meeting arrangements - the subcommittee will conduct its business primarily by electronic means, but will retain the option of meeting to ensure some discussion occurs on a face to face basis. These meetings may take place at a time convenient for subcommittee members, including immediately before or following each IPSASB meeting. (Travel, accommodation and other costs to be met by subcommittee participants);
 - (e) Publication of consultation papers, exposure drafts and other materials - the issuance of documents for comment (consultation papers, exposure drafts and/or other documents) will be subject to the usual voting rules of the IPSASB. Once approved by the IPSASB for release at the international level, documents may also be released by the NSS for domestic review together with any contextual commentary considered necessary by the NSS in each jurisdiction.

MATTERS TO BE DEALT WITH IN THE PROJECT

A Framework for the Cash Basis and a Framework For The Accrual Basis

The Framework of the IASB deals with only one basis of accounting – the accrual basis. This approach is reflected in the Frameworks of standards setters in IPSASB member jurisdictions – see attachment 1. It reflects that those standards setters issue standards for financial reporting under the accrual basis of accounting.

Discussions of the development of a Public Sector Framework by the IPSASB have focused, explicitly or implicitly, on a Framework for preparation and presentation of financial statements under the accrual basis of accounting.

However, the IPSASB has developed a comprehensive Cash Basis IPSAS as well as a series of accrual IPSASs. Therefore it is appropriate that the IPSASB also articulate the conceptual underpinnings of its approach to financial reporting under the cash basis of accounting.

The concepts to be dealt with under a cash basis may not be as extensive as for the accrual basis, and there may be some common components and some common ground. While some concepts will be similar for the cash and accrual Frameworks (for example, notions of the reporting entity and the objectives of financial reporting), others are likely to differ in some respects (for example, elements of financial statements and presentation and disclosure).

In anticipation that the greatest interest and priority of the IPSASB and NSS will be to develop the Framework that underpins the accrual basis of financial reporting, implications of the accrual Framework for, and other conceptual underpinnings of, the cash basis Framework will be developed as the last phase of the project.

As the project develops, the IPSASB may determine to issue its Public Sector Conceptual Framework as one document including both the cash and accrual Frameworks. However, the

cash and accrual concepts should be identifiable as stand alone components and concepts for each Framework identified and explained independently. This will facilitate use of the Framework as developed by the IPSASB by those NSS which currently develop standards only under the accrual basis or only under the cash basis.

Components of the Framework – accrual basis

As illustrated in attachment 1, Conceptual Frameworks have been developed and/or are being developed and improved in many jurisdictions currently represented on the IPSASB. In some cases those Frameworks have been developed to apply to public sector entities.

Frameworks in member jurisdictions deal with objectives, qualitative characteristics, assets, liabilities, revenue (currently under development in Canada), expenses, equity/net assets, recognition criteria, measurement bases (descriptive only in Australia) and financial statements (Australia and Canada have requirements outside the Framework). A number, but not all, also deal with characteristics of the reporting entity and the scope of financial reporting. In some jurisdictions, Frameworks may also address concepts of capital and capital maintenance, non-financial performance reporting (service efforts and accomplishments), management analysis and discussion, communication, and accounting for interests in other entities.

The IASB Framework also deals with many of these components: for example it includes consideration of objectives, qualitative characteristics, the elements of financial statements for presentation of financial position and performance (assets, liabilities, equity, expenses, and income, which encompasses revenue and gains), recognition criteria, underlying assumptions of going concern and the accrual basis, measurement bases and capital and capital maintenance. The current review of the IASB Framework includes consideration of the reporting entity, purpose and status/authority of the Framework and presentation and disclosure.

Clearly there is a consensus about the core items that should be dealt with in Conceptual Frameworks: objectives, qualitative characteristics, elements of financial statements (assets, liabilities, revenue, expenses, equity/net assets), recognition criteria, measurement bases, and presentation and disclosure. However, given that users of public and private sector financial statements and certain of their information needs may differ, there may well be some differences in the definition and consequences of these concepts – for example, whether private sector objectives which focus on use of financial statements as predictors of future cash flows and whether notions of equity/net assets adopted in the private sector are applicable in the public sector will need to be explored and tested as part of the developmental process.

There is also a case for including guidance on the reporting entity and the scope of financial reporting in the public sector within the IPSASB Framework, and for clarifying the purpose and authority of the Framework itself.

Reporting Entity

Notions of reporting entity and what may be encompassed within a particular reporting entity, whether at the individual entity or consolidated economic entity level, may be well understood in the private sector and in statistical reporting bases in the public sector. However, they are not as well developed for financial reporting consistent with accounting models in the public sector. In addition, the objectives of statistical reporting models and

accounting reporting models differ. Consequently, it may well be that notions of the reporting entity that are appropriate for financial reporting consistent with statistical reporting models will differ from the notions that are appropriate for financial reporting consistent with accounting models. The IPSASB Framework should provide needed guidance in this area.

Scope of Financial Reporting

The following matters may well be included within the scope of financial reporting in the public sector, may extend that scope beyond that conventionally considered as applicable to private sector for-profit entities in many jurisdictions and may have implications for such matters as the objectives of financial reporting and the elements of financial reports beyond those elements reflected in financial statements.

Performance Reporting

The focus of Conceptual Frameworks for financial reporting by private sector entities is primarily on the disclosure of information about the current financial position and immediate past financial performance of the reporting entity, often as input to better enable users to form views about the likely future financial performance of the entity or economic entity. This is consistent with the objectives of such entities which focus on the delivery of financial returns to stakeholders over the long term. Statistical financial reporting models also focus on the disclosure of the financial characteristics of performance as input for economic analysis and decision making.

Public sector entities operate to achieve service delivery and social policy objectives as well as financial objectives. Assessments of the performance of public sector entities, including their financial performance, cannot be isolated from their achievement of service objectives - this is particularly, but not exclusively, so for non-GBE's. There is then a strong case that general purpose financial reports intended to discharge the accountability of a public sector reporting entity will encompass not only the financial characteristics of their performance, but also the achievement of their service delivery objectives – that is, disclosure of information about non-financial characteristics of their performance.

Whether disclosures of non-financial characteristics of performance are included within general purpose financial reporting will be considered in the process of developing the Framework. This is likely to encompass consideration of the status and “location” of disclosure of performance indicators and explanatory narrative which may be included as notes to the financial statements or in management discussions and analysis (MDA) or operations review which accompany those financial statements, and which may (or may not) be subject to audit.

Budget Reporting

Most governments prepare and issue as public documents, or otherwise make publicly available, their annual financial budgets. The budget documents are widely distributed and promoted. They reflect the financial characteristics of the government's plans for the forthcoming period and form the basis of financial data used to compile the national accounts of most countries. Monitoring and reporting on budget execution is necessary for ensuring compliance with Parliamentary (or similar) authorization and is the central component of the process that provides for government and parliamentary (or similar) oversight of the financial dimensions of operations. Making budget data publicly available is necessary to enable transparent reporting of the government's financial intentions and of its

use of taxes and other revenues. In many respects, and for many external users, the budget documents are the most important financial statements issued by governments.

Budget reporting models often embrace the notion of commitments. While there is not a generally accepted single definition of this term, it is generally acknowledged as the government's responsibility for a possible future liability based on a contractual agreement. In many jurisdictions, reporting commitments has had an important role in financial reporting in the public sector.

As part of the process of developing the Public Sector Conceptual Framework it will be necessary to explore and clarify whether presentation of prospective budget data and reporting on budget compliance is within the scope of general purpose financial statements and/or general purpose financial reports in the public sector. In this context, it will be necessary to clearly distinguish between budget formulation and presentation of budget data as GPFSs, and the role of commitment accounting in the Framework.

Prospective Financial Information and Reporting on the Long Term Sustainability of Government Programs

Many governments initiate social benefit programs intended to provide benefits to constituents in the future and over the long term. These programs are to be funded by revenues raised from constituents in the future in the form of taxes and government charges, and/or by transfers from other levels of government. The financial consequences of these programs and the resources to be generated in the future to fund them, are unlikely to be adequately captured by concepts of assets, liabilities, revenues and expenses which are constructed to ensure that the economic consequences of past transactions and events can be reported on a reliable and consistent basis in financial statements that are subject to audit.

Profit seeking entities which operate in a competitive environment may make disclosures of prospective financial information based on assumptions about events that may occur in the future and possible actions the entity may take. However, any such disclosures are likely to be broad in nature. This is because they may include commercially sensitive information about future plans and strategies which may undermine the competitive advantage of an entity and its ability to achieve its profit objectives, to the detriment of stock holders and other stakeholders.

However, the potential loss of commercial advantage is not a significant factor in assessing whether such disclosures should be made by public sector entities (other than GBEs). Disclosure of prospective financial information may be a necessary adjunct to information recognized in the financial statements consistent with the objective of financial reporting by such entities. Such disclosure may include financial information about the long term fiscal sustainability of social benefit programs at different levels of service delivery.

Governments are already responding to this potential information need of users of their financial statements. For example, in some jurisdictions government entities are required to disclose forecasts of long range cash inflows and outflows for major classes of social benefits, information about the present value of future benefits to be provided to current and anticipated beneficiaries and key assumptions underlying those forecasts and estimates. In addition, some governments provide "whole of government" information useful as input to assessments of the extent to which current social policies are sustainable in the medium and long term, including the projected impact of those policies on taxation, debt and the

government's overall financial condition. Such information may be included in "generational reports" which are presented as part of the budget process; or as separate reports and papers on projected revenues, expenses and cash flows under existing policies.

Development of the public sector Framework could usefully include consideration of whether the disclosure of prospective financial information is included within the scope of general purpose financial reporting.

Relationship to Concepts in the System of National Accounts (SNA)

Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and in some cases have a similar type of report structure.

The overarching model for financial reporting of data for macroeconomic statistical analysis is the System of National Accounts, 1993 (1993 SNA). Statistical models of financial reporting in various jurisdictions around the world are broadly harmonized with the SNA. Currently, the 1993 SNA is being updated, with the objective of publishing a revision in 2008. The IPSASB has been contributing to the 2008 update of the SNA through its involvement in the international Task Force on Harmonization of Public Sector Accounting (TFHPSA). The mandate of the TFHPSA included encouraging convergence between accounting and statistical bases of financial reporting where feasible and desirable. A number of proposed changes to the 2008 SNA will contribute to ongoing convergence of accounting and statistical bases of financial reporting.

There is then merit in considering the concepts underlying the statistical reporting models, and the potential for convergence therewith, as the IPSASB Framework develops.

Purpose and Authority of the Framework

The authority of the Frameworks in IPSASB member jurisdictions differs – see attachment 1.

The current IASB Framework is of a lesser authority than an IAS or IFRS developed to deal with a specific transaction or event. However, the IASB Framework does guide the selection of accounting policies when an IAS/IFRS has not been established on a particular matter. It is then a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IFRS.

At the international level, it is likely that the principles reflected in an IPSASB Conceptual Framework will be too broad to apply authoritatively to all transactions not dealt with specifically in an IPSAS – this is particularly so given the potential for legal and institutional conventions to differ in different jurisdictions, and for different practices and policies to apply in jurisdictions which may apply IPSASs.

Establishing authoritative requirements for recognition, measurement and disclosure of particular transactions in specific IPSASs will ensure that these requirements are subject to due process. It will also provide the IPSASB with the opportunity to include appropriate transitional provisions in each IPSAS to respond to practicalities of implementation in different jurisdictions, and thereby ensure that there is an orderly adoption of the IPSAS.

It is therefore intended that the IPSASB Framework have similar authority to that of the current IASB Framework. Such a Framework will be of use to the IPSASB and its subcommittees in guiding decisions and deliberations in the standards setting process, and to users of IPSASs when faced with establishing accounting policies for matters not specifically dealt with by IPSASs.

DUE PROCESS

Consultation Papers and Exposure Drafts

The IPSASB has initiated a number of its major projects with a consultative document, whether an Invitation to Comment (ITC), Research Report or Study. Similarly, in a number of jurisdictions a discussion paper or series of discussion papers has set the ground work for the development of the Conceptual Framework.

At the international level, the IASB commenced its original Framework project with the issuance of a series of EDs in the early 1980's. The IASB process for finalization of its Framework is evolving in the light of experience with recent developments including the issue of discussion papers as the first step in the due process, with an exposure draft to draw all the components together at a later stage in the project, and a recent interim agreement to issue chapters of the IASB revised Framework progressively as finalized.

The IPSASB will similarly issue consultation papers of the key components of the Framework, followed by an exposure draft of the full Framework. This will enable it to take advantage of the recent and current development work undertaken in member jurisdictions and by the NSS and IPSASB subcommittee monitoring the IASB developments. Such an approach will build and maintain momentum for the project during the early stages of the project, and draw together the individual components in the final stages of the project.

Consultation Paper Development

The components of the Framework are interconnected - decisions about the objectives and scope of financial reporting will influence the elements of financial statements and other information which may be included in notes to general purpose financial statements or as part of general purpose financial reports. There is then a sound argument that, in principle, consultation papers of all the components should be developed together and issued for comment prior to the full Framework being issued as an exposure draft. However, on practical grounds, it is not possible to deal with all components at the one time. As such, it will be necessary to move forward on some components of the Framework before others. This will also provide constituents and the IPSASB and NSS with the opportunity to review and comment on components as the Framework develops, and for later stages of project development to be informed by responses to prior consultation papers.

In terms of sequences and groupings it is proposed that the components of the Framework be grouped as follows – these groupings are based on the expectation that staff resources will be allocated to the project by the NSS on a task by task basis, and that the initial focus of the Framework project will be on the concepts underpinning the accrual basis. Whether or not each component is developed as a separate Consultation Paper, whether two or more components may be combined or individual components further broken down, and whether the sequence of paper development may need to be revised will be considered by the subcommittee as tasks are allocated to each participating NSS and the development work progresses:

First group of Consultation Papers

- (a) Objectives of financial reporting - this Consultation Paper will identify and justify the objectives of financial reporting by public sector entities. It will also draw out the relationship of the objectives to information provided by general purpose financial statements and the wider notion of general purpose financial reporting. As the draft of the objectives Consultation Paper is developed, it will be used as the basis for “focus group discussions” and/or similar public hearings, to facilitate additional input on users and user needs. Other components of the Framework may also be included in focus group discussions.
- (b) The scope of financial reporting – this Consultation Paper will identify the matters that may be included within financial reporting in addition to the financial statements. This paper will explore and make recommendations on whether such matters as performance reporting, budget disclosures, and reporting on fiscal sustainability of government programs should form part of general purpose financial reports and should fall within the mandate of the IPSASB. This paper could also usefully consider whether, and in what circumstances, these additional matters would be subject to audit as part of the general purpose financial report.
- (c) Qualitative characteristics of financial information – these are characteristics that all information included within the general purpose financial reports will need to possess. This Consultation Paper will identify and explain the qualitative characteristics and their relationship to each other. Consideration of the qualitative characteristics will illuminate notions of what will be included in primary financial statements and in notes thereto. This will also guide/influence consideration of the scope of financial reporting and whether financial reporting in the public sector may encompass additional information in supplementary statements and reports.
- (d) Characteristics of the reporting entity - this Consultation Paper will explore such matters as the:
 - criteria for determining which groups of activities, whether legal or administrative units or other organizational arrangements, are in the nature of reporting entities and should prepare and present financial reports; and
 - types of reporting entities for which the IPSASs should be developed.

This component will also explore the basis on which the boundaries of a reporting entity should be established and therefore which assets, liabilities, revenues, expenses and other elements should be reported in the financial statements of a reporting entity.

Second group of Consultation Papers

- (e) Definition and recognition of the elements of financial statements – this Consultation Paper will identify and define the elements that are reported in financial statements and the criteria that will need to be satisfied for their recognition. These will include assets, liabilities, revenues, expenses and notions of net assets/equity. They may also include other notions such as gains and losses which are included in the IASB Framework and the Frameworks of many national standards setters.
- (f) The consequences of conclusions/recommendations on the scope of financial reporting (considered at consultation paper (b) above) for the elements of general

purpose financial reports (in addition to those reflected in the financial statements) and other matters that might be addressed in general purpose financial reports.

Third group of Consultation Papers

- (g) Measurement – this Consultation Paper will explore measurement basis that may validly be adopted for the elements that are recognized in the financial statements. It is not intended that the Framework will mandate requirements about the measurement bases to be adopted in specific circumstances. This will be dealt with by individual IPSASs which deal with specific transactions and events and are themselves subject to the full due process. Rather this paper will outline the measurement base(s) that are consistent with the objectives of financial reporting, the qualitative characteristics of financial information and the recognition criteria.
- (h) Presentation and disclosure – this Consultation Paper (or series of papers) will deal with the nature and content of the primary financial statements and notes thereto. It may also include consideration of the presentation and audit status of information presented outside financial statements in a general purpose financial report – for example, presentation and disclosure of information about such matters as budget/prospective financial information, compliance with budgets, and disclosures about the achievement of service objectives in financial reports.

Fourth group of Consultation Papers

- (i) Cash Basis Framework – this Consultation Paper will deal with concepts as they apply to the cash basis, noting any differences to the concepts developed for the accrual basis when applied in the cash basis.

This grouping and sequencing of issues largely reflects that being adopted by the IASB in its joint project with the FASB except that the IASB project, at least in terms of the initial project plan proposed that: (a) consultative documents (discussion papers/exposure drafts) dealing with the elements of financial statements be issued before the consideration of the reporting entity; (b) consultative documents dealing with the boundaries of financial reporting be developed after the reporting entity phase of the project; (c) consultative documents dealing with the purpose and status of the Framework be issued towards the end of the project; and (c) does not draw out the additional non-financial performance or budget reporting matters as explicitly as in this brief and does not deal with a Framework for cash basis financial reporting.

The timing of the definition of the reporting entity and initial consideration of the scope (boundaries) of financial reporting in the public sector has been elevated in this plan because:

- (a) Notions of the reporting entity are less well developed for financial reporting in the public sector than in the private sector. Consequentially, they may raise issues that need to be considered in the development of the elements of financial statements/financial reporting.
- (b) The scope of general purpose financial reporting has the potential to impact on the objectives that financial reporting may reasonably be directed at achieving. Consequentially, the scope and objectives of financial reporting should be developed together during the first phase of the program. Staff of the NSS that are dealing with these components will need to liaise on the development of their respective papers.

A separate Consultation Paper on the purpose and status of the Framework is not included in the above schedule because the proposed status of the Framework is outlined in this project brief (see above), which will itself be made available for comment. However, it is intended that the purpose and status of the Framework will be identified in the composite exposure draft to be issued later in the project process.

The non-financial performance, budget reporting and cash basis Framework issues are specific to, or likely to be of greater significance for, the public sector, and therefore have been highlighted in this brief.

TIMING AND KEY MILESTONES

It is anticipated that the Framework will be completed by 2011 and issued in 2012. Key milestones are as follows:

2007 – Consultation Paper(s) dealing with Group 1 components developed for issue.
Issue late 2007/early 2008.

2008 – Consultation Paper(s) dealing with Group 2 components developed and issued.
Issue late 2008.

Responses to Group 1 Consultation Paper(s) reviewed and objectives, scope, qualitative characteristics and reporting entity agreed for inclusion in first draft of accrual Framework ED.

2009 – Consultation Paper(s) dealing with Group 3 components developed and issued.
Issue late 2009.

Responses to Group 2 consultation papers reviewed and the following agreed for inclusion in first draft of Framework ED:

- (a) definition of the elements of general purpose financial statements and criteria for their recognition; and
- (b) consideration of other elements of financial reports (in addition to those recognized in financial statements) and criteria for their inclusion in general purpose financial reports

2010 – Responses to Group 3 consultation paper(s) reviewed and measurement concepts and matters of presentation and disclosure for inclusion in first draft of Framework ED agreed.

Consultation Paper dealing with Group 4 component (Cash Basis Framework) developed and issued late 2010.

Exposure draft of full accrual Framework developed for issue late 2010. (or early 2011).

2011 – Responses to accrual Framework exposure draft reviewed and Framework finalized.

Responses to Cash Basis consultation paper reviewed and exposure draft of cash basis Framework finalized.

2012 – Accrual Framework issued.

Responses to exposure draft of cash basis Framework reviewed and Framework finalized.

ATTACHMENT 1

**SUMMARY TABLE OF RESULT: SURVEY OF IPSASB MEMBERS RE CONCEPTUAL FRAMEWORKS
IN THEIR JURISDICTIONS– March 2006**

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
1. In your country is there a conceptual framework (CF) for accounting standards?	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2. If Yes, does it:																	
a) apply to public sector?	N	Y	Y	Y		N	Y	N	Y	N	N	Y		N	N	N*	Y
b) also apply to private sector?	Y	Y	N	N		Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Are there separate CFs for the public and private sectors?		N*	Y	N		N	Y	N	Y		Y	N	N	Y	n/a	N*	Y
3. Are there plans for further developments which impact the public sector? Please attach a brief overview.	Y	Y*	Y ¹	N		Y	Y	N	N	Y	N	Y		N	Y	Y	Y
4. Is the CF (A) authoritative or (B)a guide only?		B*	B	A		A	B	DP	A		guide	A*	A	A	A	A	A**
5. Does the CF deal with:																	
a) the cash basis?		N		N		N		N	Y		b) accrual	b) Accrual	N	N	b)	N	
b) the accrual basis?		Y	b)	Y		Y		Y	Y				Y	Y		Y	
c) both cash and accrual bases		N		N		N	C	N	N				N	N/A		N	***

Summary Table of result from survey IPSASB members

Public Sector Conceptual Framework Project Brief (December 2006)

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	SAFR	SWIT	UK	USA
6. Does the CF deal with:											Y						
a). Reporting Entity		Y	N3	Y		N	Y	N	Y			Y		N	N	Y	N
b). Objectives		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
c). Qualitative Characteristics		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
d). Definitions of:								-									
Assets,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Liabilities,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Revenues,		Y	N1	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Expenses,.		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Equity/net assets		Y	Y			Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Other terms (indicate in notes)		N	Y4			N	Y	N	N			Y				Y	Y*
e) Recognition criteria		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	
f) Measurement bases		N*	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y
g) Financial statements		N	N5	Y		Y	Y	N	Y		Y	Y		Y	Y	Y	Y
h) Scope of financial reporting		N	Y			N	Y	N	Y		Y	Y		Y	N	Y	Y
i) Frequency of presentation		N	N			N	Y	N	N		Y	N		Y	(Y)	N	N
7. Are other Matters addressed		Y*	Y6			Y	N	N	N		*)	Y		N	Y	Y	Y
									A								

In some cases, members provided additional comments on Framework in their country. Those notes are identified below (they only identify notes in English):

ARG – Argentina (2002 comment)

The Inter-American Development Bank has requested the National Accounting Office of Argentina to harmonize Argentinean public sector accounting standards with International Public Sector Accounting Standards. The Law of Financial Administration states that the National Accounting Office shall be the body responsible for the issuance of any regulations for the national public sector.

AUS – Australia (2006 Comment)

With effect from 1 January 2005, Australia has adopted the International Accounting Standards Board's (IASB's) Framework for the Preparation and Presentation of Financial Statements (Framework), modified to include limited additional guidance on not-for-profit entities in the public and private sectors. The Australian Framework applies to entities in both the public and private sectors. As a consequence of issuing an Australian equivalent to the IASB Framework, the following Australian Statements of Accounting Concepts were withdrawn:

- SAC 3 Qualitative Characteristics of Financial Information
- SAC 4 Definition and Recognition of the Elements of Financial Statements

However, the following Statements of Accounting Concepts were retained:

- SAC 1 Definition of the Reporting Entity
- SAC 2 Objective of General Purpose Financial Reporting

SAC 1 was retained because the IASB Framework does not include a concept of a reporting entity. SAC 2 was retained as guidance to amplify the discussion of the objective of financial statements in the IASB Framework.

In relation to Question 4, the concepts in the Australian Framework are not set out as requirements. However, like International Financial Reporting Standards, some Australian Accounting Standards require application of the Framework in specific circumstances. The Australian equivalent to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors outlines a hierarchy to be followed in developing an accounting policy when an Australian Accounting Standard does not specifically address the transaction. The Framework is an integral part of this hierarchy. In addition, the Australian equivalent to IAS 1 Presentation of Financial Statements specifies application of the accrual basis of accounting (except for cash flow information), and describes the accrual basis as recognition of assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those financial statement elements in the Framework.

In relation to Question 3, the Australian Framework is incomplete. The Australian Accounting Standards Board (AASB) will monitor the joint project of the IASB and US Financial Accounting Standards Board to complete and update their conceptual frameworks, and will develop a revised Australian Framework in the light of that international project. That revision will apply to entities in both the private and public sectors.

In relation to Question 2, the AASB has yet to decide whether to develop a separate Statement composed of additional guidance for not-for-profit entities in the public and private sectors, as the UK Accounting Standards Board (ASB) is doing with its Proposed Interpretation for Public Benefit Entities in respect of the ASB's Statement of Principles for Financial Reporting. The Financial Reporting Council (the federal government body that oversees the AASB) has commissioned research that may lead to consideration of whether the AASB should retain its policy of issuing sector-neutral pronouncements. The outcome of that research has the potential to lead to changes in the content and structure of Australian pronouncements, including the conceptual framework applicable to public sector entities.

Question 6(f) was answered in the negative because, although the Australian Framework (like the IASB Framework) discusses measurement bases, it does so only in a descriptive sense, not normatively.

In relation to Question 7, the Australian Framework (like the IASB Framework) also discusses concepts of capital and capital maintenance.

CAN – Canada (2006 Comment)

1) Canada's conceptual framework for the public sector does not currently include a definition of revenue though a general revenue recognition principle is included in the general standards of financial statement presentation. This gap is currently being addressed with completion scheduled for November 2006.

2) Canada's conceptual framework for the public sector does not constitute a financial reporting standard, however, where the Public Sector Accounting Handbook is silent on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GAAP.

3) Canada has a separate financial reporting standard addressing the reporting entity Section PS 1300 *Government Reporting Entity*.

4) Definitions of 'Financial Asset', 'Non-Financial Asset' and 'Tangible Capital Asset' are also given in the public sector conceptual framework. The first two definitions necessary to providing a key measure of financial performance for Canadian governments – the measure of 'Net Debt'.

5) The conceptual framework does discuss what information must be portrayed in the financial statements as well as naming those financial statements. However a separate financial reporting standard (Section PS 1200 *Financial Statement Presentation*) gives the actual directive as to what financial statements should be prepared.

6) Canada's conceptual framework for the public sector provides discussion on user identification and user information needs. Further, the framework acknowledges the 'benefit vs cost' constraint when complying with standards for example, in considering disclosure of information beyond that required by the standards.

ISRL – ISRAEL (2006 Comment)

In July 2005, the board of directors of the Israel Accounting Standards Board (private sector), approved a decision in respect of fully adoption of all IFRS's in Israel as of the year 2008.

One of the steps towards the adoption of IFRS's was adoption of the International Framework for the Preparation and presentation of Financial Statements in October, 2005.

The Israeli Government Accounting Standards Board (the Israeli GASB) has been established In the End of 2005. One of its mandatory goals is to adopt the International Public Sector Accounting Standards (Copyright 12/2005). As an integral part of the adoption process, the Israeli GASB will adopt a Conceptual Framework after one will be published by the IPSASB.

JAPN – Japan (2006 Comment)

Accounting Standards Board of Japan (ASBJ), the accounting standards setter for private sector entities issued Discussion Paper on Conceptual Framework in July 2004. The DP was developed by Working Group of ASBJ and does not necessarily represent formal view of Board of ASBJ. The DP has been under "field testing" since the issuance. The DP is considered when ASBJ develop or amend standards but DP itself might be revised by the result of this field testing process. ASBJ seems not to finalize the CF project in a few years.

Since ASBJ is the accounting standards setter for private sector entities, the DP may not impact directly on public sector. However, this is the first and only authoritative document regarding CF of accounting standards in Japan. The DP may have impact on public sector to some extent. My answer in this questionnaire is based on my understanding of the DP issued by ASBJ.

The Japanese Institute of CPAs (JICPA) set up a Project Team to discuss CF for the public sector in 2001. However, the PT did not reach consensus in many aspects. Points of discussion during intensive talks in the PT for one and half years were summarized into “Discussions on CF for public sector accounting” in March 2003. The document is open to the public through JICPA website to aim fostering discussions on CF of public sector accounting. It is in my opinion that, the document has not influence so much on developing public sector accounting standards so far. JICPA currently does not have a plan to further develop CF for public sector.

Malaysia (2006 comment)

In Malaysia, there are two accounting standards setters that are:

- (i) Malaysian Accounting Standards Board (MASB), the accounting standards setter for private sector entities and
- (ii) Public Sector Accounting Standards Committee (PSASC). the accounting standards setter for public sector entities

MASB formulates accounting standards within the framework of accrual basis of accounting whereas PSASC formulates accounting standards within the framework of cash basis of accounting.

MASB is established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.

The MASB, together with the Financial Reporting Foundation (FRF), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

The Public Sector Accounting Standards Committee is established in the year 1992 in order to enhance accountability and improve standards of government financial reporting. Public Sector Accounting Standards Committee is responsible for issuing of Government Accounting Standards (GAS) in Malaysia. Public Sector Accounting Standards applies to Federal Government and all States Governments.

MEX – Mexico (2002 comment)

The legislation applicable to the Superior Audit Institution was changed a few months ago. It establishes that the Superior Audit Institution will have the responsibility for issuing (or at least approving) accounting standards for the public sector. The current private sector statement of concepts does not apply to the public sector.

NETH – The Netherlands

Public sector:

There is not one single body responsible for public sector accounting standards in the Netherlands. Various ministries develop accounting standards for governmental entities within their jurisdiction. The Ministry of Internal Affairs develops accounting standards for the 12 provinces and 458 municipalities in this country. The Ministry of Internal Affairs also develops accounting standards for the 25 police departments. The Ministry of Transport, Public Works and Water Management develops accounting standards for the 27 waterboards in the Netherlands. Furthermore, each Ministry establishes tailor-made accounting standards in separate contracts with each of its agencies. The Ministry of Finance develops standards for the central government all ministries.

Consequently, there is not one overriding conceptual framework for financial reporting by all Dutch public sector entities. There is, however, one conceptual framework in the public sector: the accounting standards developed by the Ministry of Internal Affairs for the provinces and municipalities are based on a conceptual framework. I answered the questions in the survey table for this conceptual framework.

Other Matters addressed: Apart from the items mentioned in the table, this conceptual framework gives a brief guidance on the budget and the operating and financial review.

Companies and non-profit organizations:

The Dutch Accounting Standards Board (DASB) develops accounting standards for non-listed companies and non profit organizations. The DASB developed a conceptual framework for these accounting standards.

Listed companies follow IFRS, as all listed companies in the European Union do.

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

Up until the decision to adopt IFRS New Zealand had in place a single concepts statement - New Zealand's Statement of Concepts for General Purpose Financial Reporting. This was issued in 1993 and some minor amendments were made in 2001.

Summary Table of result from survey IPSASB members

Public Sector Conceptual Framework Project Brief (December 2006)

In 2004 New Zealand adopted IFRS. New Zealand equivalents to IFRS are mandatory for reporting periods commencing on or after 1 January 2007, with early application permitted from 1 January 2005.

New Zealand has adopted the IASB Framework as the New Zealand Equivalent to the IASB Framework for the Preparation of Financial Statements. This Framework will supercede the Statement of Concepts and is applicable by all entities adopting the New Zealand equivalents to IFRS.

The NZ Framework is based on the IASB Framework. The NZ Framework is an essential component of New Zealand financial reporting pronouncements as it establishes definitions and recognition criteria that are applied in other pronouncements.

The IASB Framework was developed for application by profit-oriented entities. The NZ Framework includes material additional to that in the IASB Framework to ensure that it can be applied by all reporting entities required to prepare general purpose financial statements that comply with generally accepted accounting practice in New Zealand. In order to preserve the integrity of the IASB Framework and to enable this NZ Framework to be readily updated for future revisions of the IASB Framework, changes to the text of the IASB Framework have been minimized.

In adopting the IASB Framework for application as the NZ Framework, the following changes have been made.

- (a) The discussion in paragraphs 1-4 has been revised to reflect the purpose of the proposed NZ Framework and the role of the FRSB (paragraphs NZ 4.1 to NZ 4.4).
- (b) The description of a complete set of financial statements has been amended for consistency with NZ IAS 1 Presentation of Financial Statements (paragraph 7).
- (c) A discussion acknowledging the role of non-financial and supplementary information has been included (paragraph NZ 7.1).
- (d) Additional paragraphs have been inserted to acknowledge the range of entities that are required to prepare general purpose financial statements (paragraphs NZ 8.1 to NZ 8.3).
- (e) A discussion of two additional users of financial statements (funders or financial supporters, and elected or appointed representatives) has been inserted (paragraph NZ 9.1).
- (f) A discussion of the role of financial statements in demonstrating accountability has been included (paragraphs NZ 14.1 and NZ 14.2).
- (g) A discussion of various types of non-financial and supplementary information has been included (paragraphs NZ 20.1 to NZ 20.8).
- (h) Additional guidance for public benefit entities in respect of materiality has been inserted (paragraph NZ 30.1).

- (i) An additional paragraph discussing “future economic benefits” and “service potential” has been inserted (paragraph NZ 49.1).
- (j) Additional guidance has been inserted stating that in the context of public benefit entities, references to contributions from (or distributions to) equity participants should be read as contributions from (or distributions to) equity holders acting in their capacity as equity holders (paragraph NZ 70.1).
- (k) A brief discussion of the elements of non-financial statements has been included. The NZ Framework requires that the quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of the Framework (paragraphs NZ 101.1 to NZ 101.3).
- (l) A brief rationale for the New Zealand specific sections has been included as an Appendix.

Projects to revise the Framework

The NZ FRSB is actively monitoring the IASB project to revise the Framework. New Zealand Institute staff are on IASB-FASB project team revising the Framework.

In addition the FRSB is monitoring the project to review the revised IASB Framework from a public sector perspective. The FRSB plans to work with standard setters from other jurisdictions and expects that this work will assist the FRSB in considering what approach to take to the adapting the revised IASB framework for application to public benefit entities in New Zealand.

NOR – Norway (2006 Comment)

Norway has a set of codified basic accounting principles for private sector that have many similarities to a CF. The responses are based on the basic principles. The principles have previously been implicit used as basis for issuing accounting standards, but were explicit stated in the new accounting act from 1999.

SWIT – Switzerland (2006 Comment)

The Swiss Foundation for accounting and reporting recommendations, the issuer of Swiss GAAP FER, has issued a conceptual framework with an effective date of 01 January 2006. This framework, as well as the standards, is only applicable for private sector companies. It is only authoritative for companies applying Swiss GAAP FER.

There are currently discussions between the various stakeholders, whether a Swiss Public Sector Accounting Standard should be developed. While larger entities like the federal

Summary Table of result from survey IPSASB members

Public Sector Conceptual Framework Project Brief (December 2006)

government, large states and cities have decided to apply the IPSASs, it remains unclear whether a national standard could prove to be helpful for the numerous small and very small entities. A draft project brief suggests to initiate such a potential project with the development of a conceptual framework.

SAFR – South Africa (2006 comment)

The South African conceptual framework applicable to the private sector is based on the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. The South African Public Sector Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements is based on the private sector framework, but has been updated to reflect the public sector perspective.

South Africa's conceptual framework for the public sector does not constitute a financial reporting standard, however, where no financial reporting standard exists on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GRAP.

As with IFRS, the reporting entity has not been addressed.

We are monitoring developments at the IASB and will make the necessary public sector amendments when the IASB project is finalized.

UK – United Kingdom (2006 Comment)

In 1999 the UK Accounting Standards Board issued its Statement of Principles for Financial Reporting. This applies straightforwardly to the private sector, and has substantially influenced UK public sector standard setting.

The UK ASB has developed, but has not issued in final form, guidance on how the private sector Statement of Principles should be applied to non-profit or 'public benefit' entities. After a discussion paper released in 2003, a full exposure draft "Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities" was issued for comment in August 2005.

The Statement of Principles is authoritative for the private sector inasmuch as it sets out principles which must be considered in the development of UK GAAP. Its status will need to be reviewed in the light of adoption of or convergence with IFRS in the UK jurisdiction. As of 2006, the Statement of Principles remains extremely influential for public sector standard setters, particularly as financial reporting for central government is required to have due regard to UK GAAP.

In addition to the points listed, the Statement of Principles also considers accounting for interests in other entities.

US – United States of America (2006 comment)

There are two bodies responsible for public sector accounting standards – the Federal Accounting Standards Advisory Board (FASAB), which issues concepts and standards for the federal government and its agencies, and the Governmental Accounting Standards Board (GASB), which issues concepts and standards for state and local governments and their agencies. FASAB has issued three Statements of Federal Financial Accounting Concepts (SFFAC) whilst GASB has issued three Concepts Statements.

*GASB's current work program includes two conceptual framework projects, one on financial statements elements and one on recognition and measurement attributes. FASAB is currently requesting comments on its proposed work plan, which includes a project to develop a concepts statement on the elements of financial statements.

**Both the FASAB's and the GASB's concepts statements are considered to be "other accounting literature" in the authoritative hierarchy.

***Would have application to the cash basis to the extent that encompasses a cash flow statement.

In developing the elements concepts, the GASB is proposing definitions for inflows and outflows that will encompass multiple measurement focuses and deferral accounts. Deliberations on the recognition and measurement attribute concepts are scheduled to being the fourth quarter of 2006.

The statements currently on issue are:

SFFAC 1 Objectives of Federal Financial Reporting;

SFFAC 2 Entity and Display;

SFFAC 3 Management's Analysis and Discussion – Concepts;

GASB Concepts Statement No. 1 Objectives of Financial Reporting;

GASB Concepts Statement No. 2 Service Efforts and Accomplishments Reporting; and

GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*.

ATTACHMENT 2

CONCEPTUAL FRAMEWORK SUBCOMMITTEE
PROPOSED MEMBERSHIP (for confirmation Dec 2006)

Country	Member	Contact
IPSASB	IPSASB Member	
UK	M.. Hathorn - Chair	M. Hathorn, I Carruthers
Argentina	C. Palladino	C. Palladino
Japan	T. Sekikawa	T. Sekikawa
New Zealand	G. Schollum	G. Schollum
Norway	T. Olsen	T. Olsen, H. Brandis
USA	D. Bean	D. Bean
NSS	NSS Member	NSS
Australia - AASB	D. Boymal	D. Boymal, J. Paul
China - Ministry Finance	Weidong Feng	Weidong Feng , Li Hongxia
France - Ministry of Finance	P. Soury	P. Soury, L. Vareille
IMF Statistics Department and Fiscal Affairs Department	To be confirmed*	L. Laliberte
Italy - Ministry Economica/Finance	To be confirmed*	Prof. P. Germani, M. Bessone
South Africa - ASB	E. Swart	E. Swart
UK- ASB	I. Mackintosh	I. Mackintosh, D. Loweth
Monitoring Group	Monitoring Group Member	
Canada - PSAB	R. Salole	R. Salole
FEE - PSC	To be confirmed*	C. Mawhood
Netherlands – Ministry of Internal Affairs	To be confirmed*	W.G.J. Wijntjes
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