The Chartered Institute of Public Finance & Accountancy

IPSASB Conceptual Framework Exposure Draft Phase 2 — *Elements and Recognition in Financial Statements*

response to exposure draft

30 April 2013

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto
Ontario M5V 3H2
CANADA
Submitted electronically

April 2013

Dear Stephenie Fox

IPSASB Conceptual Framework Exposure Draft Phase 2 — *Elements and Recognition in Financial Statements*

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs. A key element of this is the development of a public sector Conceptual Framework, which will aid both IFRS converged development and freestanding development of standards on public sector matters.

Concern over inclusion of deferred flows as Elements

CIPFA disagrees with the proposal that deferred inflows and deferred outflows should be included in the list of Elements. Especially given the proposal that these should be used to calculate a measure of financial position, and should be a modification of the measure of position provided by net assets.

Our principal concern is that this places too much emphasis of deferral issues.

We also consider that it overcomplicates the presentation of the entity's position, making the financial statements less readable and less understandable. A further reduction in clarity occurs when the consequences for the revenue and expenses are considered.

We commented on deferrals in our response to the IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* which was issued in December 2010. In that response we explained that deferral information may often be relevant information, which should be brought to the attention of readers of financial reports, perhaps through narrative reporting. We did not consider such deferrals to be elements of financial statements applicable in an international context. CIPFA's position is essentially unchanged on this matter.

We note that the Exposure Draft reduces the potential scope of deferrals by requiring that they arise from non-exchange transactions. This might be seen as preserving the IPSASB Conceptual Framework's alignment with the asset and liability and revenue and expenses position arising under the IASB framework. However, while we agree that non-exchange transactions are a distinctive feature of the public sector, the ED does not provide a rationale to explain why it is important that additional accounting should apply for these items, or indeed, if such additional reporting is helpful, why it should not apply more widely to exchange transactions.

The ED states at BC 40 that "Information on the extent to which the cost of providing services has been financed by revenue of the same reporting period is highly useful for accountability and decision-making purposes." While we would agree that this information can be useful, and may be interesting to some stakeholders in some jurisdictions, the proposals seem to make this information the primary feature of the statement of position, elevating certain types of accountability above reporting on economic substance. Inasmuch as there is a requirement for additional explanation, in our view this would be best satisfied through additional disclosure.

Some may consider that the economic position arising under current standards and consistent with that set out under the current definitions of assets and liabilities is not the most faithful or useful representation. We have some sympathy for this viewpoint, but inasmuch as it might be appropriate to develop a revised statement of position incorporating deferrals adjustment, we suggest this would need to be done carefully and with full consultation on this specific issue. We would not expect this to require a definition of deferrals as specific element: this could be progressed by reference to existing elements grounded in control.

Response to specific questions

Comments on the specific matters for comment are provided in the attached Annex A.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

Paul Mason
Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London WC2N 6RL
t: 020 7543 5691
e:paul.mason@cipfa.org
www.cipfa.org

ANNEX A

Specific Matters for Comment

Specific Matter for Comment 1 Do you agree with the definition of an asset? If not, how would you modify it?
CIPFA agrees with the proposed definition of an asset, although we would note that the current drafting at 2.1 repeats detail which is (necessarily) included in the definition of a resource at 2.2. A possible redraft is attached at ANNEX B. As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.
Specific Matter for Comment 2 (a) Do you agree with the definition of a liability? If not, how would you modify it? (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?
CIPFA agrees with the proposed definition of a liability. As discussed in the covering letter, we believe the definitions of asset and liability are between them sufficient to populate the statement of balances, without reference to issues arising from deferred flows.
Specific Matter for Comment 3 Do you agree with the definition of revenue? If not, how would you modify it?
In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework. In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of revenue could be used. For example "Inflows during the current reporting period, which increase the net assets of an entity, other than ownership contributions".

Specific Matter for Comment 4

Do you agree with the definition of expenses?
If not, how would you modify it?

In line with our responses to SMCs 1, 2 and 5 we do not support the recognition of deferred inflows and outflows as separate elements in the Conceptual Framework.

In line with this, if deferred flows are removed from the statement of balances, a simpler and clearer definition of expenses could be used. For example

"Outflows during the current reporting period, which decrease the net assets of an entity, other than ownership distributions".

Specific Matter for Comment 5

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

(i) Decision to restrict those definitions to non-exchange transactions? If not, why not?

(ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

(a) As explained in our covering letter CIPFA disagrees with the proposal to define deferred inflows and deferred outflows as elements.

Our disagreement reflects concerns that

- inclusion as elements over emphasises the importance of information on deferrals; and
- the proposed effects on presentation will reduce the readability and understandability of the financial statements.

CIPFA also considers that if IPSASB wishes to develop reporting on deferred flows this could be done at standards level and would be better articulated in terms of the other elements

Specific Matter for Comment 6

(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?

(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?

(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?

(a) CIPFA agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained in our response to SMC 5 and elsewhere we do not consider that deferred inflows and outflows should be separate elements.

    Should the Board accept this view, there would be no need to separately define another measure of financial position.

(b) CIPFA is content with the decision to define ownership contributions and ownership distributions as elements.

(c) CIPFA agrees with the proposed definitions of ownership contributions and ownership distributions.

(d) CIPFA is content that it is not necessary to define ownership interests in the conceptual framework.

Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

CIPFA agrees with the proposed recognition criteria and their relationship to disclosures.

Drafting Suggestion

2.1 An asset is a resource~~, with the ability to provide an inflow of service potential or economic benefits~~ that an entity presently controls, and which arises from a past event.

A Resource

2.2 A resource is an item with the ability to provide an inflow of service potential or economic benefits.

2.3 ~~That resource must be controlled by the entity (see paragraph 2.6.)~~ Physical form is not a necessary condition of ~~an asset~~ a resource. The benefits can arise directly from the resource itself or from the rights to the resource. Some resources embody an entity's rights to a variety of benefits including, for example, the right to:
(a) Use the resource to provide services;
(b) Use an external party's resources to provide services, for example, leases;
(c) Convert the resource into cash through its disposal;
(d) Benefit from the resource's appreciation in value; and
(e) A stream of cash flows.