AGENDA PAPER 10.2: AASB EXISTING RCF – IPSASB CONCEPTUAL FRAMEWORKS COMPARISON

1. Staff wish to thank Peter Gibson, AASB Board member, for his comparative analysis of the Revised Conceptual Framework (RCF) and the International Public Sector Accounting Standards Board's (IPSASB) Framework, as well as the identification of potential NFP-specific issues and also other comments on implications of the RCF for NFP entities, which formed the initial input into the staff discussion contained in this Agenda Paper. Any errors or omissions in Agenda Paper 10.2 are the responsibility of staff.
2. The list below represents matters that staff identified when assessing the need for NFP modification to the RCF through comparison with IPSASB CF. Staff note that the 'Stage' column indicates which stage staff propose to address the issue in. Where staff recommend not to develop a NFP modification in the RCF in respect of an issue as part of this project, 'N/A' is shown in the column.

Chapter 1 – The Objective of General Purpose Financial Reporting

Issue 1: Primary Users of General Purpose Financial Reports

Revised Conceptual Framework	IPSASB Framework	Stage
Existing and potential investors, lenders and other creditors (paragraph 1.2).	Service recipients and resource providers, including their representatives such as the legislature or individual members of parliament (paragraph 2.6).	1
Staff comments: Under the existing NFP Conceptual Framework, the primary users are broadly defined to encapsulate both the IASB and IPSASB Frameworks. For NFP entities, paragraph AusOB2.1 has been added, which in essence is the same as the IPSASB concept. Paragraph AusOB2.1 has been transferred to the working draft of the updated Revised Conceptual Framework (see paragraph Aus1.2.1 therein). The IPSASB in particular identifies a range of other users in paragraph 2.6. However, it does not designate these as primary users. General purpose financial statements are intended for primary users. Paragraph 2.6 in the IPSASB Conceptual Framework is more detailed than, but compatible with, paragraph 1.10 of the Revised Conceptual Framework. Based on these aspects, it appears that transferring paragraph AusOB2.1 to the Revised Conceptual Framework (as paragraph Aus1.2.1) adequately addresses NFP-specific issues arising from the identification of the primary users of GPFRs. However, as noted in paragraph 15 of Agenda Paper 10.1, some Project Advisory Panel members argued that the discussion of 'primary users' in paragraph Aus1.2.1 should be reviewed, and staff recommend to the Board that this should be conducted within Stage 1 of the project.		

Issue 2: Uses of GPFRs by primary users

Revised Conceptual Framework	IPSASB Framework	Stage
Information useful to decisions about buying and selling equity and debt instruments, advancing or settling credit and exercising voting rights, which includes assessment of future net cash inflows and assessment of management's stewardship of the entity's economic resources (paragraphs 1.2 and 1.3). Stewardship includes efficient and effective use of resources, protection of resources from unfavourable effects, and compliance with applicable laws, regulations and contractual provisions (paragraphs 1.22 and 1.23).	To provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes. Accountability covers the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations (paragraph 2.8).	1

Staff comments:

The Revised Conceptual Framework has added the stewardship dimension, which is very similar to the IPSASB accountability dimension. The two Frameworks use virtually identical language.

However, there might be a view that the apparent similarity in language overlooks the nature of decisions made by users and accountabilities between FP and NFP entities. (Further, there may be some differences between NFP private sector entities and those in the public sector.) For example, users of financial reports of FP entities make decisions about dealings in financial instruments on which financial returns are expected. Conversely, users of NFP entity financial reports may be more interested in service delivery than returns. NFP entities are more likely to place a greater emphasis on accountabilities related to service delivery than stewardship related to returns. In the public sector this can include comparison of actual outcomes with the budget, as identified in the preface to the IPSASB Framework. This difference is dealt with in the present NFP Conceptual Framework in paragraph AusOB 3.1. Paragraph AusOB3.1 has been transferred to the working draft of the updated Revised Conceptual Framework (see paragraph Aus1.3.1 therein), with the following limited amendments:

- references to 'stewardship' were added in the second and fourth sentences to mirror the addition of a reference to 'stewardship' in paragraph 1.3 in Revised Conceptual Framework; and
- a reference to "assessing prospects … for how future cash flows will be distributed among those with a claim against the reporting entity" was added to the fourth sentence to provide not-for-profit context to the fourth sentence in paragraph 1.13: this is addressed in this paragraph because of the close link with assessing prospects for future net cash inflows.

Ultimately, the above-mentioned differences in the nature of decisions and accountability/stewardship assessments between the for-profit and NFP sectors might mean that users in different sectors will differ about the nature of the financial information they seek to be provided in GPFRs, and the presentation of that information (paragraphs 2.11 and 2.13]. Nevertheless, staff consider the transfer (with limited amendments) of existing paragraph AusOB3.1 (as paragraph Aus1.3.1) adequately addresses these differences. Prima facie support for this view is provided by the facts that the proposed NFP modification of the Revised Conceptual Framework is highly similar to the NFP modification included in the existing NFP Conceptual Framework, and the Revised Conceptual Framework's text to which those Aus paragraphs relates is also highly similar.

Issue 3: Concept of General Purpose Financial Reports (GPFRs)

Revised Conceptual Framework	IPSASB Framework	Stage
Paragraph 1.12 indicates GPFRs are closely aligned with the financial statements.	GPFRs may be a range of reports, of which GPFS (financial statements may only be one) (paragraph 1.6). Examples of other GPFR under IPSASB are long-term fiscal sustainability reports and service performance reports (paragraphs 2.18-2.28).	1 & 2

Staff comments:

It would appear that the IPSASB concept of GPFRs means that the qualitative characteristics of financial information apply to GPFRs other than financial statements, although there might be a view that the qualitative characteristics can have different application in different reports (e.g. verifiability might be less achievable in forward-looking reports – paragraph 2.32 in Revised Conceptual Framework). However, the RCF acknowledges that the financial statements are not the only source of relevant information for users (paragraph 1.6).

In practice, it would appear that reports other than financial statements are integrated in the IPSASB Framework but would be “add-ons” under the RCF. Staff consider the Revised Conceptual Framework can be applied by NFP entities without necessarily addressing whether the scope of GPFRs should be identified more broadly for NFP entities. That issue can largely be addressed within Stage 2 of the project (also with detailed consideration of the AASB’s projects on Management Commentary and Reporting Service Performance Information), and its absence from a NFP Conceptual Framework largely should not impede the application of that Framework by NFP entities. This is particularly the case because decisions about the scope of GPFRs of NFP entities would in the first instance be a matter for the AASB. The exception to this point is that, if the AASB were to identify service performance reporting as a necessary component of general purpose financial reporting by some, or all, NFP entities (as part of another project) staff recommend that in Stage 1 the NFP RCF acknowledges explicitly the relevance of information about service performance to users of general purpose financial reports of NFP entities and the reasons why it is relevant (without elaborating further).

Issue 4: Terminology in Chapter 1

Revised Conceptual Framework	Stage
Chapter 1 of the Revised Conceptual Framework contains terminology that some may regard as less relevant, or irrelevant, to NFP entities. For example, various paragraphs refer to future cash flows as a proxy for returns, paragraph 1.15 refers to transactions in equity instruments, paragraph 1.16 refers to predicting future returns, and paragraph 1.20 refers to dividends or other distributions to investors. Paragraphs 1.12 to 1.18 in the Revised Conceptual Framework have equivalents in the IPSASB Framework (2.14 etc), although with the language more focussed on the public sector.	1

Staff comments:

Regarding the first example, draft paragraph Aus1.3.1 clarifies that NFP entities are generally not concerned with obtaining a financial return on investment (consistent with paragraph AusOB3.1 of the existing NFP Conceptual Framework).

Regarding paragraphs 1.15 and 1.20, draft paragraph Aus1.15.1 clarifies that transactions in equity instruments and distributions to investors typically do not occur in the NFP sector (however, it is possible for a public sector NFP entity to control a business entity with equity instruments, including non-controlling equity interests, that generates surpluses to subsidise the service-delivery activities of the NFP entity). This NFP guidance is cross-referenced to draft paragraph Aus4.67.1, which refers to the typical absence of defined equity interests in the NFP sector and states that each reference to an 'equity claim' in relation to a NFP entity is to be read as a residual interest in that entity.

Regarding paragraph 1.16, draft paragraph Aus1.16.1 clarifies that, for NFP entities, users focus is particularly interested in predicting the amount and cost of future services and the sustainability of future service delivery. Draft paragraph Aus1.16.1 is entirely new and its inclusion reflects an reassessment of the extent to which NFP-specific commentary is needed for a balanced coverage of all sectors.

Regarding the language paragraphs 1.12 to 1.18 in the Revised Conceptual Framework, the draft NFP amendments include two draft Aus paragraphs (Aus1.15.1 and Aus1.18.1) designed to address the more significant aspects of for-profit-specific expression. Staff consider these two Aus paragraphs would adequately address the for-profit-specific expression in paragraphs 1.12 to 1.18.

Chapter 2 – Qualitative Characteristics of Useful Financial Information

Issue 5: The characteristics

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td>The RCF has two fundamental characteristics (relevance, including materiality, and faithful representation) (paragraphs 2.6 to 2.22); four enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) (paragraphs 2.23 to 2.38), and one constraint (cost) (paragraphs 2.39 to 2.43).</td><td>With one exception, the characteristics are the same as in the RCF, although they all have equal status, rather than being divided into fundamental and enhancing (paragraphs 3.6 to 3.31). The one exception is that materiality is treated as a constraint in the IPSASB framework (paragraphs 3.32 to 3.34).</td><td>N/A</td></tr>
<tr><td colspan="3">Staff comments:

While there are varying views about the grouping of qualitative characteristics, there does not appear to be a need to make a specific change to the RCF to deal with NFP issues.</td></tr>
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Issue 6: Scope of application of the qualitative characteristics

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td colspan="2">Staff comments:

As noted above, in the IPSASB Framework the characteristics apply to a broader range of reports, due to its broader description of GPFRs. Nevertheless, any NFP modification of the Revised Conceptual Framework would seem to pertain to how the qualitative characteristics might be applied if more forward-looking information is included in GPFRs of some NFP entities—rather than pertaining to the qualitative characteristics themselves. To explore this issue properly, it would seem necessary to</td><td>2</td></tr>
</table>

address the scope of GPFRs for NFP entities, which would not be practicable to complete during Stage 1 of the project. Therefore, staff propose not to make a NFP modification in relation to this issue in Stage 1.	

Issue 7: Materiality

Revised Conceptual Framework	IPSASB Framework	Stage
Materiality is an entity-specific aspect of relevance.	Materiality applies to qualitative characteristics besides relevance, and will be taken into account in standard-setting.	N/A
Staff comments: It may be considered that there probably would be no significant difference in practice in applying the guidance on materiality in the two Frameworks. Staff believe there is not a NFP-specific reason to depart from the RCF's positioning of materiality within the qualitative characteristics. Therefore, staff propose not to make a NFP modification in relation to this issue.		

Issue 8: Definition of faithful representation

Revised Conceptual Framework	IPSASB Framework	Stage
Includes prudence as a factor in ensuring neutrality and hence faithful representation.	Prudence is not mentioned.	N/A
Staff comments: There might be a view that it was clear in the debate when RCF has been developed about the inclusion of prudence that it means different things to different people. However, this does not have special ramifications for NFP entities. Therefore, staff propose not to make a NFP modification in relation to this issue.		

Issue 9: Comparability

Revised Conceptual Framework	IPSASB Framework	Stage
Discussion is presented in general theoretical terms (paragraphs 2.24 – 2.29).	Also includes specific types of comparability, including across years (including budgets) and entities. It notes that, in the NFP public sector: "Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance" (paragraph 3.25).	N/A

Staff comments: If comparability between entities were less important in the public sector (and NFPs more generally) than in the for-profit sector, this would potentially have major theoretical ramifications. For example, in measurement, it could imply greater primacy to entity-specific measurement techniques, and less primacy to generic measurement techniques. However, the relative downplaying of comparability in the IPSASB Conceptual Framework is expressed in relation to a subset of the information that might be included in GPFRs. In addition, paragraph BC3.28 of the IPSASB's Basis for Conclusions states that, for data useful for assessing trends in service delivery activities and resources committed thereto, reporting on a comparable basis may be just as important as, and cannot be separated from, faithful representation of the information. Therefore, staff consider there is not a substantive difference between the two Conceptual Frameworks regarding comparability. Accordingly, staff propose not to make a NFP modification in relation to this qualitative characteristic.

Issue 10: Understandability

Revised Conceptual Framework	IPSASB Framework	Stage
Understandable to users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently, although in some cases may do so with the aid of an adviser (paragraph 2.36).	Similar discussion (paragraphs 3.17-3.18), although makes an important point about the limitations of users in the public sector, which would also apply to users of NFP entities more generally.	N/A
Staff comments: The IPSASB Framework gives greater emphasis on the importance of providing to users of NFP entities' financial reports information that is written in plain language and presented in a readily understandable manner. However, both Frameworks state that information should not be excluded from GPFRs because it is inherently difficult to understand due to the complexity of some economic phenomena. Otherwise, relevant and faithfully presented information about complex financial transactions or arrangements would be omitted. Therefore, staff consider there is not a substantive difference between the two Conceptual Frameworks regarding understandability. Accordingly, staff propose not to make a NFP modification in relation to this qualitative characteristic.		

Issue 11: Timeliness

Revised Conceptual Framework	IPSASB Framework	Stage
Timeliness means having information available to decision-makers in time to be capable of influencing their decisions (paragraph 2.33)	Similar to the RCF, adding mention of usefulness for accountability purposes (paragraph 3.19). Like the RCF, the IPSASB Framework (paragraph 3.20) notes that some information may continue to be useful long after the reporting date: for example, to assess trends. The IPSASB Framework also notes that the outcome and effects of some service delivery programs may not be determinable until future periods in view of the lags between the delivery of programs and their outcomes/effects. The potential for some information to remain relevant for longer periods in the case of public sector NFPs might also apply to some private sector NFPs.	N/A

Staff comments:

The potential for some information to remain relevant for longer periods in the case of NFPs does not seem to affect the concept of timeliness in each Framework. Staff believe there is not a NFP-specific reason to modify the IASB's conceptual guidance on timeliness. Therefore, staff propose not to make a NFP modification in relation to this qualitative characteristic.

Issue 12: Uncertainty and use of estimates

Revised Conceptual Framework	IPSASB Framework	Stage
The final RCF (2.18, 2.22) is less negative than the current Australian NFP CF – about the existence of uncertainty in determining monetary amounts for financial reports.	Also acknowledges uncertainty, although contains less information about how to deal with it. Specifically, the IPSASB Framework does not include a paragraph corresponding to RCF paragraph 2.22.	N/A

Staff comments:

There might be a view that neither Framework deals comprehensively with all situations where measurement uncertainty is so pervasive that measurements do not provide faithful representation. This might be more in likely the case of NFPs, where for example assets are often specialised and have no ready market or market equivalent information (even at Level 3 of the fair value hierarchy); and where users may find information based on estimates difficult to understand. However, on balance, staff consider it would be more appropriate to deal comprehensively with measurement uncertainty at a standards level than in the Framework. Therefore, staff propose not to make a NFP modification in relation to measurement uncertainty.

Issue 13: Applying the qualitative characteristics

Revised Conceptual Framework	IPSASB Framework	Stage
Relevance would be applied first, faithful representation second, and then the enhancing characteristics in no particular order (but so they are maximised) (paragraphs 2.20 et seq; 2.37 et seq).	Includes a shorter section on the need to balance the qualitative characteristics (paragraphs 3.41 -3.42) which identifies the need to balance using professional judgement.	N/A

Staff comments:

There might be a view that, in theory, the differences between the discussion of applying the qualitative characteristics could result in different approaches to setting standards on any given topic. However, it is difficult to determine how such differences might arise in practice. Moreover, staff do not perceive a NFP-specific reason to depart from the approach to the qualitative characteristics under the RCF. Therefore, staff propose not to make a NFP modification in relation to the approach to the qualitative characteristics.

Issue 14: Terminology in Chapter 2

Revised Conceptual Framework	Staff comment	Stage
Paragraph 2.14 contains an example of a "complete description of a group of assets". It may be considered that this excludes specific information about how the assets contribute to service delivery, which is important to NFPs.	Draft paragraphs Aus1.3.1 and Aus1.16.1 discuss the importance to users of GPFRs of NFP entities of information about the entity's ability to provide services. Staff consider these Aus paragraphs provide sufficient emphasis on how assets contribute to service delivery, and therefore recommend not to add any further NFP modifications in this respect.	1
Paragraph 2.41, in discussing the cost constraint, refers to financial information that "results in more efficient functioning of capital markets and lower cost of capital for the economy as a whole". As expressed, this is only indirectly relevant to NFPs. IPSASB has a similar paragraph focussed on the public sector, referring to general user needs and the pricing of public sector debts (which would not be of direct relevance to many NFPs). It may be considered that it would be beneficial to add a NFP dimension directly to this paragraph, so that it is taken into account in applying the cost constraint to NFPs.	Staff observe that the wording quoted from paragraph 2.41 of the RCF is also set out in paragraph QC37 of the existing NFP Conceptual Framework. The existing NFP Conceptual Framework does not contain a NFP modification to provide balance or NFP context to those words in quotes. Nevertheless, staff recommend including paragraph Aus2.41.1 to add a corresponding NFP dimension to paragraph 2.41.	1

Chapter 3 – Financial Statements and the Reporting Entity

Issue 15: Definition of Reporting Entity

Revised Conceptual Framework	IPSASB Framework	Stage
An entity that is required, or chooses, to prepare financial statements. It can be a single entity, or a portion of an entity, or can comprise more than one entity. It is not necessarily a legal entity (paragraph 3.10).	A (public sector entity) that prepares GPFRs (paragraph 4.1). The key characteristics of a reporting entity are that: • it is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and • there are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.	N/A

Staff comments: Some might focus on the fact that the definition in the current Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* is similar to that of the IPSASB. Both SAC 1 and the IPSASB Framework contain useful discussion about the characteristics likely to be present for reporting entities, with IPSASB focussing on the public sector. In this regard, SAC 1/IPSASB and the RCF concepts are inconsistent. Removing the applicability of SAC 1 by Australian entities adopting the Revised Conceptual Framework (including NFP entities) will reflect the aim of conforming to the approach in the RCF. In that sense, completion of the AASB Board's Financial Reporting Framework completes the Board's due process for consideration of the reporting entity concept. Therefore, staff recommend not to include any NFP modifications of the definition of a reporting entity in the Revised Conceptual Framework. Importantly, both the RCF and IPSASB Frameworks make it clear that a reporting entity may not always align with the boundaries of legal or administrative entities/economic entities, and may be a component of a legal entity. Staff believe that principle is equally valid in the for-profit and NFP sectors, and therefore do not propose any NFP modification regarding that principle.

Issue 16: Set of economic activities

Revised Conceptual Framework	IPSASB Framework	Stage
For a reporting entity comprising more than one entity, the guidance focuses primarily on a structure with a parent and subsidiaries (paragraph 3.11).	A public sector reporting entity may comprise two or more separate entities that prepare GPFRs as if they are a single entity, with IPSASB referring to this as a group reporting entity (paragraph 4.2).	2
Staff comments: IPSASB CF contains very little about group entities. There might be a view that "grouping" may be different outside the private FP sector, as the needs of users may be different (paragraph 4.11); and, consequently, the factors that might give rise to different grouping decisions in the NFP sectors – public and private - could be documented. Staff consider such decisions are matters of application of the concept in paragraph 3.14 of the Revised Conceptual Framework that "determining the boundary of the reporting entity is driven by the information needs of the primary users", and therefore do not need to be addressed in the Revised Conceptual Framework. However, Stage 2 of the project will provide an opportunity to seek feedback on whether any NFP guidance should be added to the Revised Conceptual Framework. Consequently, staff recommend not to make a NFP modification in relation to determining how to identify the boundaries of a NFP group reporting entity in Stage 1 of the project.		

Issue 17: Preparation of group accounts

Revised Conceptual Framework	IPSASB Framework	Stage
Contains discussion of information provided by consolidated and unconsolidated financial statements, as a means of deciding what statement to prepare (paragraphs 3.15-3.19).	Does not contain similar discussion, although notes that financial reports should be based on the needs of users (paragraph 4.5).	N/A
Staff comments: There might be a view that the information needs of users can differ between the FP private sector and other sectors. Nevertheless, staff consider such factors affecting decisions about whether to prepare consolidated and unconsolidated financial statements are matters of application of the reporting entity concept in the Revised Conceptual Framework, and therefore do not need to be addressed in the Revised Conceptual Framework. Consequently, staff recommend not to make a NFP modification in relation to determining whether to prepare consolidated and unconsolidated financial statements.		

Issue 18: Going concern assumption

Revised Conceptual Framework	IPSASB Framework	Stage
The going concern assumption is expressed in terms of liquidation and ceasing trading (paragraph 3.9). This is different from the existing NFP Conceptual Framework, which uses liquidation or materially curtailing the scale of operations (paragraph 23).	Notes that in the public sector, entities exist for a long time; nations continue to exist, and sub-national entities are likely to be supported or restructured (paragraph 12 of the Preface).	2
Staff comments: The RCF itself is not problematic, albeit with terminology less suited to the public sector. There might be a view that issues do arise in practice in the public sector with auditing standards, which align with the RCF definition, resulting in auditors undertaking work to verify the going concern assumption in public sector situations where it is not in doubt. Similarly, it can be considered that this issue is beyond the scope of accounting standard-setters, but could be considered further by auditing standard-setters. Staff agree that this issue does not affect the appropriateness of the guidance on the going concern assumption for NFP entities (particularly public sector NFP entities), and observe that although applying the same concepts in different environments can have different impacts, this does not of itself call into question the appropriateness of the concepts. Staff consider an additional potential application issue is that, where an announcement has been made to close or restructure a NFP entity (such as a government department) and transfer its assets, liabilities and operations to another entity that will continue those operations, should that 'cessation of trading' be regarded as a trigger for assuming that the existing entity is no longer a going concern? If so, would it provide relevant information to prepare the financial statements on another basis? Staff believe this potential issue does not need to affect Stage 1 of this project, because it does not indicate the concepts in the Revised Conceptual Framework are inappropriate for NFP entities. However, if stakeholders consider this is an issue worth addressing, it could be the subject of complementary guidance to paragraph 3.9 of the Revised Conceptual Framework, developed in Stage 2 of the project. Consequently, staff recommend not to make a NFP modification in relation to the going concern assumption in Stage 1 of this project.		

Issue 19: Terminology in Chapter 3

Revised Conceptual Framework	Staff comment	Stage
Paragraph 3.14 states that "Faithful representation requires that: (a) the boundary of the reporting entity does not contain an arbitrary or inconsistent set of economic activities; (b) including that set of economic activities within the boundary of the reporting entity results in neutral information; …". There might be a view that the RCF terminology of an "set of economic activities" to describe a group may not be appropriate to all NFP groups, because not all components of a legal entity or legal group of entities may belong to the same set of economic activities.	Regarding paragraph 3.14(a), paragraph BC3.17 of the IASB's Basis for Conclusions on the Revised Conceptual Framework refers to a portion of an entity reporting an incomplete set of economic activities, for example, by excluding the reporting entity's share of overheads. Thus, it seems the focus of paragraph 3.14 is on warning against excluding items that belong to a set of economic activities, rather than on seeking to constrain a reporting entity to a single set of economic activities. This interpretation of paragraph 3.14 makes sense having regard to single corporate entities in the for-profit sector having different operating segments, without any suggestion they must identify separate reporting entities for each set of economic activities. Moreover, paragraph 3.14 states that where the reporting entity is not a legal entity, determining the boundary of the reporting entity is driven by the information needs of users—this provides flexibility in the identification of reporting entities. For example, users might seek information about an entity composed of multiple sets of economic activities. In light of these aspects, staff consider that paragraph 3.14 is unlikely to constrain the identification of NFP groups, in particular, as reporting entities. Therefore, staff recommend not to make a NFP modification in relation to paragraph 3.14.	N/A
The RCF refers to information that might relate to amounts that can be legally distributed to holders of equity claims against the parent. There might be a view that most NFP entities cannot legally distribute amounts and may not have equity claims.	To address these concerns, staff have drafted the following new NFP amendments (ie amendments not contained in the existing NFP Conceptual Framework, because the for-profit entity expression in that Framework did not include the terms described at the left): • paragraph Aus1.15.1, stating that for NFPs, transactions in equity instruments and distributions to investors typically do not occur; and • paragraph Aus4.67.1, stating that residual interests in the assets of a NFP are not necessarily held in the form of equity claims.	1

Chapter 4 – The Elements of Financial Statements

Issue 20: Concept of equity: paragraphs 4.1-4.2 and 4.63-4.69

Revised Conceptual Framework	IPSASB Framework	Stage
Paragraph 4.1 identifies equity as an element of financial statements but does not identify 'contributions from holders of equity claims' and 'distributions to holders of equity claims' as elements (see table beneath para. 4.2). However, the definitions of income and expenses in para. 4.68 and 4.69 explicitly exclude 'contributions from holders of equity claims' and 'distributions to holders of equity claims', respectively (see first section of staff comments below). There may be a view that paragraphs 4.63 – 4.69 contain terminology that is focused strongly on the for-profit sector, and companies in particular. therefore, some may consider that some addition(s) to the terminology might be appropriate to provide context for NFP entities, for example, incorporating the further information about ownership contributions in paragraph 5.33 of the IPSASB Framework (see discussion in overall staff views section below).	Neither 'equity', nor an equivalent term (e.g. 'net assets'), is identified as an element of financial statements (IPSASB CF, para. 5.5; para. BC5.66 – BC5.68). However, 'ownership contributions' and 'ownership distributions' are identified as elements of financial statements (IPSASB CF, para. 5.5). Para. 5.33 of the IPSASB CF defines 'ownership contributions' as "Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity." Para. 5.34 of the IPSASB CF defines 'ownership distributions' as "Outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity." The Basis for Conclusions on the IPSASB CF states that "the terms 'residual interest' and 'ownership interest' have been used in some jurisdictions to characterize third parties' interest in net assets. The term 'residual interest' indicates that service recipients and resource providers have an interest in the capability of the entity to finance itself and to resource future operations … (and) may also suggest that service recipients and resource providers have a financial interest in the public sector entity." "The term 'ownership interest' is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. … [It] may suggest that citizens are entitled to distributions from the public sector entity and to distributions of resources in the event of the entity being wound up. The IPSASB therefore concluded that the terms 'residual interest' and 'ownership interest' can be misunderstood or misinterpreted, and that net financial position is a residual amount that should not be defined." (para. BC5.66 – BC 5.67)	1

Staff Comments:

Staff comment on RCF, paragraph 4.1

It seems illogical for some changes in an element of financial statements (equity) to qualify as elements of financial statements (income and expenses) whilst other changes in the same element of financial statements ('contributions from holders of equity claims' and 'distributions to holders of equity claims') do not qualify as elements. However, there is not an apparent not-for-profit-specific reason to adopt a different treatment for Australian NFP entities. In this regard, staff note that the IPSASB Framework contains the converse inconsistency: it identifies 'ownership contributions' and 'ownership distributions' as elements of financial statements whilst not identifying 'equity' as an element of financial statements.

<u>Staff comments on IPSASB Framework</u>

Despite the IPSASB's reasons for not defining equity (or an equivalent term) as an element of financial statements, the IPSASB:

- defines 'ownership contributions' and 'ownership distributions', strongly implying that public sector NFP entities can have owners (which is also acknowledged in para. BC5.68 of the IPSASB CF's Basis for Conclusions); and
- the definitions of those elements refer to owners.

In light of para. BC5.68, the IPSASB's view appears to be that some public sector NFP entities can have owners, but the potential for ownership interests should not give rise to an element unless all public sector NFP entities can have owners.

To provide an alternative perspective, staff noted following wording in para. 84 of former Australian Statement of Accounting Concepts SAC 4 *Definition and Recognition of the Elements of Financial Statements* (superseded by the existing NFP Conceptual Framework, with effect from 1 January 2005, as part of the adoption of IFRSs in Australia), which was written in a sector-neutral manner:

> "For every entity, the residual rights to the assets of an entity are held by some party or parties who will be the recipient(s) of any assets remaining after the liabilities of the entity have been satisfied. … In a not-for-profit entity in the private sector, there is typically an absence of defined financial interests of an ownership group which can be sold, transferred or redeemed, or that convey entitlement to a share of the residual assets in the event of the entity being wound up. However, some party or parties would be entitled to any assets remaining after the liabilities have been satisfied. In the case of both profit-seeking and not-for-profit entities in the public sector, it is normally the community, through its elected representatives in government, which holds the ultimate ownership rights."

Staff believe that, for any entity, some party or parties must have a residual interest in its net assets; otherwise, the entity's management would be entitled to use the net assets for its own purposes.

Although it is true that particular individuals in the community do not hold a financial interest in the net assets of a NFP public sector entity, another type of economic phenomenon qualifies as an element of financial statements under the IPSASB CF despite also having no identified particular counterparties. That latter type of economic phenomenon is a liability for environmental restoration, where the beneficiaries of the restoration work often are not any particular individuals.

In addition, in various jurisdictions in which IPSASs are adopted for essentially non-commercial public sector entities, IFRSs and the IASB Conceptual Framework are adopted by commercial public sector entities. Often, particular individuals in the community do not hold a financial interest in the net assets of a commercial public sector entity; however, this does not preclude the identification of equity as an element of financial statements of a commercial public sector entity.

<u>**Overall staff views**</u>

Staff disagree with the IPSASB's reasons not to identify equity (or net assets) as an element of financial statements. In addition, staff observe that the *Framework for the Preparation and Presentation of Financial Statements* (the existing NFP Conceptual Framework) identifies equity as an element of financial statements without any modifying Aus paragraph for NFP entities. Both that Framework and the RCF include discussion of equity with a heavy emphasis on corporate equity claims. The only Aus paragraph in AASB 101 modifying the requirement to present information about equity is paragraph AusCFAus136.2, which specifies that a not-for-profit AusCF entity need not present the disclosures in AASB 101 paragraphs 134 - 136 about how the entity manages its capital: these disclosures provide more detailed information than identifying the elements of financial statements.

Nevertheless, the RCF goes beyond the existing NFP Conceptual Framework by introducing the term 'equity claims' (paragraphs 4.64 – 4.69), which implies a focus specifically on equity interests in the for-profit sector. Because residual interests in an entity's assets (which are the essence of the definition of equity in paragraph 4.63 of the RCF) are not necessarily held in the form of equity *claims* for not-for-profit entities, staff propose including new paragraph Aus4.67.1 (ie it does not have a counterpart in the existing NFP Conceptual Framework).

Draft paragraph Aus4.67.1 draws on the notions in paragraph 84 of former SAC 4 (see extract above). In addition, staff propose including new paragraph Aus1.15.1 to state that transactions in equity instruments and distributions to investors typically do not occur for NFP entities, to address the for-profit accent of references to those phenomena in the Revised Conceptual Framework.

Apart from those two new Aus paragraphs, staff recommend not to make any other NFP modification of the Revised Conceptual Framework regarding the concept of equity. Although there might be a view that the IPSASB Framework's definition of 'ownership contributions' in paragraph 5.33 thereof provides useful guidance, 'contributions from holders of equity claims' do not qualify as an element of financial statements in the Revised Conceptual Framework. Because there is not an apparent not-for-profit-specific reason to adopt a different treatment for Australian NFP entities, staff do not recommend including the IPSASB Framework's definition of 'ownership contributions' in the AASB Conceptual Framework.

Issue 21: Primacy of balance sheet elements

Revised Conceptual Framework	IPSASB Framework	Stage
In effect gives primacy to the balance sheet and balance sheet elements over the elements of the statement of financial performance (reinforced in measurement, paragraph 6.1). and recognition in the statement of financial position of items that do not meet the definition of an asset, a liability or equity are not permitted (paragraph 5.5).	Acknowledges the primacy of the budget for the public sector, which is focussed on operating statement elements. The Preface to the IPSASB Framework states that "Because of the approved budget's significance, information that enables users to compare financial results with the budget facilitates an assessment of the extent to which a public sector entity has met its financial objectives." (paragraph 9) The IPSASB Framework specifies that GPFRs might include in the statement of financial position items that do not satisfy the definition of assets or liabilities. Paragraph 5.4 states that : "… the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as "other resources" or "other obligations") when necessary to better achieve the objectives of financial reporting." Paragraph 5.28 states that "Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position."	N/A

Staff comments:

There might be a view that the RCF might result in a focus, typically at standards level, of attempting to maximise the qualitative characteristics for balance sheet items, at the expense of the same for income statement items, in which cases the relevance of operating statement information might be reduced. It is not clear where the NFP private sector fits on this spectrum.

The IPSASB Framework reflects a greater emphasis on revenues and expenses, for the reasons in paragraphs BC5.38 – BC5.58 of the IPSASB's Basis for Conclusions, and may be summarised as measuring financial performance as the result of the revenue inflows and expense outflows more closely associated with the operations of the current period. It could result in the recognition in statements of financial position of items that might be recognised in applying the IASB's Revised Conceptual Framework.

Staff believe the Revised Conceptual Framework should not give conceptual imprimatur to the recognition of items that do not qualify as elements of financial statements, regardless of the nature of the reporting entity in question. Therefore, staff does not recommend including a NFP modification of the Revised Conceptual Framework to reflect the IPSASB approach.

Issue 22: Economic benefits

Revised Conceptual Framework	IPSASB Framework	Stage
Defines elements in terms of stocks and flows of economic benefits (paragraph 4.2 etc). Economic benefits are mainly illustrated as inflows of cash or reductions in cash outflows.	Specifies that “economic benefits”/service potential do not necessarily generate net cash inflows (paragraph 5.7 - 5.8).	1
Staff comments: Broadly speaking the IPSASB framework takes a similar approach to the existing NFP Conceptual Framework, which includes Aus paragraphs Aus 49.1, Aus 54.1 and Aus 54.2 to address the objectives of NFP entities, which are not always the generation of net cash inflows. Staff propose transferring those Aus paragraphs to the Revised Conceptual Framework (with minor amendment corresponding to minor amendments in the RCF’s wording) as paragraphs Aus4.4.1, Aus4.16.1 and Aus4.16.2, respectively.		

Issue 23: Probability of future economic benefits derived from assets

Revised Conceptual Framework	IPSASB Framework	Stage
There are slight differences in wording regarding the probability of future economic benefits. The RCF describes assets as having the “potential” to produce economic benefits (paragraph 4.2), and this could include situations where the probability of producing economic benefits is low (paragraphs 4.14, 4.15); the existing NFP Conceptual Framework describes assets as having economic benefits “expected to flow”.	The IPSASB framework describes an asset as a resource, which is an item with service potential or the ability to generate economic benefits (paragraph 5.7).	N/A
Staff comments: While the RCF and IPSASB definitions of assets are similar, there might be a view that those definitions refer to different levels of probability with which economic benefits/service potential are possible. The RCF and IPSASB terminology seem reasonably close. There might be a view that it is unclear whether this is an issue for NFP entities, for example if they have many more assets with low probabilities of future economic benefits. However, staff consider this is properly regarded as only potentially affecting recognition of assets, rather than how assets are defined. Paragraphs BC4.8 – BC4.14 of the IASB’s Basis for Conclusions on its Revised Conceptual Framework explain that the reference to ‘expected’ inflows or outflows of resources has been removed from the definitions of assets and liabilities in the Revised Conceptual Framework, because it has been interpreted by some as a threshold level of probability (which is not intended). The probability of future economic benefits/service potential is one of the recognition criteria in the existing NFP Conceptual Framework (the superseded IASB Conceptual Framework); considering probability in both the definition and recognition criteria would involve redundancy and potential confusion. In view of the clarification in RCF BCs, staff consider the risk of misinterpretation of the definition of assets as containing some form of probability threshold should be low. Therefore, staff believe		

there is no need for a NFP-specific modification of the definition of, or guidance on, an asset. Staff recommend not to include an Aus paragraph regarding the 'potential' to produce economic benefits/service potential.

Issue 24: Role of past events in defining assets

Revised Conceptual Framework	**IPSASB Framework**	**Stage**
An asset is a present economic resource controlled by an entity as a result of past events (paragraph 4.3).	An asset is a resource presently controlled by the entity as a result of a past event (paragraph 5.6).	2
Staff comments: There may be a view that the two definitions of an asset are sufficiently close for practical purposes. However, they are subtlety different in content from the existing NFP Conceptual Framework, which more clearly limits existence of assets where future activities are involved. Paragraph 58 of the existing NFP Conceptual Framework says that an intention to buy inventory does not constitute an asset. There might be a view that the RCF's identification of forward contracts as an example of rights that constitute assets (4.6(a)(iii)) represents a difference from the admonition in paragraph 58. There might be a view that this may not be a general issue, as the present standards recognise some forward contracts, but it may be more prevalent in the public sector, where there are often rights, established in legal documents executed in the past, to revenue in the future e.g. under international treaties. Executory contracts, or equivalent, may also be considered relevant to this issue. Staff agree that the RCF and IPSASB Frameworks are consistent in their approach to this issue. Both Frameworks refer to economic benefits and/or service potential as pre-requisites for the existence of assets, and both require the resource to be controlled as a result of a past event. Thus, mere intentions do not give rise to an asset under either Framework. The RCF's shift to identify assets as rights can lead to identifying assets at a more granular level, because rights to receive physical resources are distinguished from the physical resources (which can give rise to changes in identifying what the nature of the controlled resource is: this can be of practical significance when the physical resource is transferred to the entity at a later date than when the right is obtained). Nonetheless, this approach is consistent with paragraph 58 of the existing NFP Conceptual Framework. Staff believe the underlying key issue in this regard is that only the IPSASB Framework contains restrictive guidance on the power to tax and other public-sector-specific powers (paragraph 5.13). This difference from the Revised Conceptual Framework has potentially significant implications for how intangible rights might be identified as assets in the public sector. Staff believe this issue warrants further consideration (regarding whether to develop additional guidance on what constitutes a past event giving rise to control of a present economic resource); however, such consideration would not be completed within Stage 1 of the project. Therefore, staff recommend identifying this as an issue to address in Stage 2.		

Issue 25: Control over assets

Revised Conceptual Framework	**IPSASB Framework**	**Stage**
An asset is a present economic resource controlled by the entity as a result of past events (para. 4.3); control links an economic resource to an entity (para. 4.19). An entity controls an economic resource if it has the present	An asset is a resource presently controlled by the entity as a result of a past event (para. 5.6). Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits	1 & 2

ability to direct the use of the economic resource and obtain the economic benefits that may flow from it (para. 4.20).	embodied in the resource in the achievement of its service delivery or other objectives (para 5.11, enlarged upon in para. BC5.9).	

Staff comments:

The RCF and IPSASB both identify control as a key "requirement" for an asset to exist, and have closely aligned definitions and characteristics of control. In the IPSASB Framework the detailed discussion is contained in the Basis for Conclusions (particularly para. BC5.9). IPSASB acknowledges that sometimes it may be difficult in the public sector to determine whether control exists (para BC5.9). Examples in the NFP context could be international agreements or conditional asset donations. Further there is specific discussion in the IASB Framework about control over know-how not in the public domain as being controlled and thus being able to be classed as an asset. There might be a view that, while this is potentially not significantly different from existing concepts, it may highlight issues in current practice: e.g. in the public sector much of the "know-how not in the public domain" is not recognised as assets.

There might also be a view that potential issues can arise about "know-how not in the public domain" that might be logically subject to restricted disclosures e.g. national security concerns, which might be different in character to proprietary knowledge of for-profit entities.

There might be a view that the 'primacy of balance sheet elements' issue discussed above, combined with control characteristics may, for example, result in income or expense recognition that does not always reflect on core aspects of financial performance of the entity.

Finally, there is often greater prevalence in the NFP sectors of assets (and other elements) managed by an entity, but over which it does not have control, or questions arise about control. For example, in the public sector, individual government departments may only administer particular items, where control lies at the whole of government level. Under the existing NFP Conceptual Framework, this is dealt with at standards level (AASB 1050 *Administered Items*). In the private NPF sector, assets may be held on trust, which is common in arts organisations for example. The RCF contains guidance on agency arrangements (4.25), but the magnitude and nature may be different in the NFP sectors.

Staff consider the consensus between the RCF and IPSASB Framework regarding the concept of control indicates that, whilst there might be different application issues regarding control in the NFP sector, this does not call into question the appropriateness of control as an essential characteristic of assets of NFP entities. Staff propose to add draft paragraph Aus4.25.1 to provide NFP-specific examples of economic resources held as an agent on behalf of a principal that controls them (such as 'administered items' addressed by AASB 1050). This Aus paragraph does not have a counterpart in the existing NFP Conceptual Framework, because the existing NFP Conceptual Framework does not include a discussion of economic resources held as an agent on behalf of a principal that controls them. Adding paragraph Aus4.25.1 would provide balance between for-profit and NFP examples of the same principle, particularly in view of the prevalence and importance of agency relationships in the NFP sector. (However, some members of the Project Advisory Panel expressed concerns that, as drafted, paragraph Aus4.25.1 adds little value in a NFP context and might create confusion about whether grants are provided as agency agreements. Staff propose to review the paragraph in more detail and provide the Board with updated draft wording at a future meeting.)

Staff consider the other application issues regarding control in the NFP sector warrant further consideration, in particular, consideration of whether NFP-specific guidance supporting the concept of control—in addition to draft paragraph Aus4.25.1—should be added to the Revised Conceptual Framework. Staff are of the view that these considerations would not be feasible to complete as part of Stage 1 of the project. However, staff consider completion of those considerations is not necessary to enable the concept of control to be applied in the interim, particularly in view of the control being part of the existing NFP Conceptual Framework (paragraphs 49(a) and 56 – 57).

Therefore, staff propose to:

- add draft paragraph Aus4.25.1 in Stage 1 of the project; and
- address the other NFP entity application issues regarding control as part of Stage 2 of the project.

Issue 26: Rights (as assets)

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td>Assets include rights (para. 4.5), with some restrictions such as rights that are immediately consumed (para. 4.8), must be controlled by the entity and provide economic benefits not available to other parties (para. 4.9), cannot result from internally generated benefits (para. 4.10), and in some situations of uncertain existence (para. 4.13).</td><td>The framework itself says little about rights, but the basis for conclusions (para. BC5.17, BC5.18) contain discussion about powers and rights of the public sector as assets, rights such as the power to tax and issue licences, and powers to grant or deny access to intangible assets such as electronic spectrum. IPSASB conclusion is that such powers do not become assets until they are given legal effect, and are exercised or exercisable (there may be similar rights held by other NFP entities, such as a right/licence to be able to legally accept donations).</td><td>2</td></tr>
<tr><td colspan="3">Staff comments:
There might be a view that the IPSASB Framework implies a narrower scope for recognising rights as assets in the public sector. The RCF definition does not contain any requirements as to legal effect or being exercisable, beyond noting that many rights are established by legal means (4.7) and the requirement to have the potential to produce economic benefits (para 4.2, 4.9). There might be a view that it is possible that the application of the IASB definition without modification could result in an over-exhaustive search for “intangible rights” by NFP entities and additional costs for preparers, even if the rights are not ultimately recognised due to uncertainties or due to the inability to faithfully measure them. Further, it might be considered that feedback should be obtained from constituents about whether this could be a material issue.
As was mentioned above regarding the issue of ‘the role of past events in defining assets’, staff consider the nature of any conceptual guidance on the power to tax and other public-sector-specific powers (paragraph 5.13 of the IPSASB Framework) warrants further consideration that could not be completed within Stage 1 of the project. Therefore, staff recommend identifying this as an issue to address in Stage 2.</td></tr>
</table>

Issue 27: Definition of a liability

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td>A present obligation of the entity to transfer economic resources as a result of past events (4.26). An obligation exists where the entity has a duty or responsibility it has no practical ability to avoid (4.29).</td><td>A present obligation of the entity for an outflow of resources that results from a past event [5.14]. A present obligation is an obligation the entity has little or no realistic alternative to avoid (5.15).</td><td>2</td></tr>
<tr><td colspan="3">Staff comments:
Similar to the definition of asset, there has been a change in the definition to focus on the obligation to transfer economic resources, rather than the outflow of resources. This results in removal of the reference, present in the existing NFP Framework, to an expectation that there will be an outflow of economic resources. Thus, liabilities may exist even when there is a low probability of an outflow of economic resources (e.g. RCF Framework, para. 4.37). There might be a view that, potentially, this means that more items may constitute liabilities under the revised Framework. The IPSASB framework does not deal specifically with the question of probability in its discussion of the definition of a liability.</td></tr>
</table>

Separately from the issue of probability, the existence or otherwise of liabilities in the public sector may have some specific considerations and there might be a view that the Revised Conceptual Framework does not address those fully, such as:

- The nature and complexity of programs in the public sector;
- The presence or absence of conditions that remain to be fulfilled, in those programs;
- Less reliance on contractual arrangements to create obligations, and thus potential variability in the point at which a present obligation (and hence liability) might exist, even under obligations that become legally enforceable;
- Even greater subjectivity where "constructive" or "non legally binding" obligations might be thought to exist;
- Sovereign powers held by governments; and
- Different approach to identification at a standards level i.e. between different standards.

These issues may give rise to different interpretations as to whether a liability exists or not, which some might consider to have widely differing potential consequences. At one extreme it might be considered that nearly all government programs result in a liability. The Revised Conceptual Framework does acknowledge that there are limits to the existence of liabilities, such as the nature of an entity's obligations (para. 4.34) and the point that the enactment of legislation is not in itself sufficient to give rise to a present obligation (para 4.45).

Further, there might be a view that there could ultimately be a change in the distinction between recognised liabilities and contingent liabilities, if the definitional change were reflected at standards level. AASB 137 para 10 defines a contingent liability as:

(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
(b) A present obligation that arises from past events but is not recognised because:
    i. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    ii. The amount of the obligation cannot be measured with sufficient reliability.

There might be a view that the definition of liability in the Revised Conceptual Framework, taken together with the removal of the 'probable outflow' threshold for recognition in paragraphs 83(a) and 85 of the existing NFP Conceptual Framework, does not preclude recognition of some liabilities of the type 10(b)(i). In addition, there might be a view that the Revised Conceptual Framework appears to be more accommodating of uncertainties that might reduce reliability than the existing NFP Conceptual Framework. While such a change would also affect FP entities, it might be that contingent liabilities of this type are more prevalent in NFP entities, and particularly the NFP public sector.

The issues are quite complex for the public sector and there might be a view that the IPSASB Framework consideration of liabilities is considerably different from that of the IASB Framework, and, in turn, that the issues warrant further consideration as a specific project.

Staff agree that NFP-entity specific issues should be considered in depth in developing the revised NFP Conceptual Framework. However, the issues are too extensive to be addressed in Stage 1 of the project—consequently, staff recommend addressing them in Stage 2 and/or a separate standards-level project on Social Benefits. However, because the liability concepts in the RCF do not conclusively indicate the point at which some of these public-sector-specific liabilities would arise, staff believe there is no need to delay adoption of the liability concepts in the RCF until those issues are resolved.

Issue 28: Rights and obligations arising from the same source

Revised Conceptual Framework	IPSASB Framework	Stage
The RCF contains a section about the unit of account for dealing with assets and liabilities to which recognition criteria and measurement concepts are applied (paragraphs 4.48 – 4.58). Paragraph 4.53 addresses rights and obligations arising from the same source. If the rights and obligations from the same source are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account. In some cases in which a related asset and liability are separable, it depends on the circumstances whether it provides more useful information to treat them as a single unit of account or account for them separately. Paragraph 4.54 notes that treating a set of rights and obligations as a single unit of account differs from offsetting assets and liabilities.	The IPSASB Framework does not include a corresponding section on unit of account.	2

Staff comments:

The IASB's conceptual guidance on the unit of account for assets and liabilities may be considered to have implications for the public sector if issues surrounding the separability of related assets and liabilities are more prevalent there. For example, the Australian income tax system contains many rebates and offsets, some of which are separable from taxation revenue, and some which are not separable.

Staff believe addressing this issue would be infeasible in Stage 1 of the project, but could be performed in Stage 2. Staff will need to perform further research and outreach to ascertain whether this is an issue to be addressed in line with AASB's *Not-for-Profit Entity Standard-Setting Framework*. Therefore staff seek Board members' feedback on whether they consider this issue should be addressed in the Revised Conceptual Framework or should be addressed only at a standards level, or whether this is an issue to be addressed at all.

Issue 29: Executory contracts

Revised Conceptual Framework	IPSASB Framework	Stage
Executory contracts establish rights and obligations that are interdependent and thus the combined right and obligation constitute a single asset or liability (para. 4.56).	Executory contracts are binding arrangements where there is an unconditional right to receive resources and an equal present obligation to transfer resources to the counterparty in the future (para. BC5.5).	2

Staff comments:

The RCF refers specifically to contracts. In contrast, the IPSASB Framework refers to the broader concept of binding obligations.

IPSASB "also acknowledges the view that recognizing assets and liabilities from executory contracts would involve the inclusion of potentially very large amounts of assets and liabilities in the statement of financial position and the statement of financial performance and that this may conflict with the qualitative characteristic of understandability". It leaves the issue to be resolved at standards level. However, one potential implication of the IPSASB approach is application of the concept to, for example, circumstances where non-contractual binding arrangements in the public sector are executory. It is not clear how this might impact private sector NFP entities.

Staff consider this issue seems to be specific to NFP entities, particularly those in the public sector, and warrants consideration. However, it is too complex to be addressed within Stage 1 of the project. Therefore, staff recommend addressing it within Stage 2.

Issue 30: Terminology in Chapter 4

Revised Conceptual Framework	Staff comment	Stage
RCF paragraph 4.11 refers to the rights that might arise from the legal ownership of a physical object. The examples given are not exhaustive, but do not explicitly include the right to use the object to provide services. There is a more general right to use the object listed in the example. There might be a view that, whilst the example appears to be satisfactory, some constituents may feel that it is unclear whether service delivery is included.	Staff believe there is no need for a NFP modification specifically in relation to this aspect of paragraph 4.11 because: • the paragraph discusses unit of account, not the characteristics of an asset; and • the right to use an object for service delivery should be encapsulated by the 'universal' clarification in draft paragraph Aus4.4.1 that 'the potential to produce economic benefits' is used in the Conceptual Framework as a reference also to 'service potential'.	N/A
The IASB Framework deals at certain points with obligations arising by contract. e.g. paragraph 4.56, etc. There might be a view that: • whilst these appear to be equally applicable to NFP entities entering into contracts, it is uncertain whether similar considerations might be appropriate for rights and obligations arising other than from contracts; and • this may need to be considered as the IPSASB terminology appears to encompass "binding arrangements" rather than just "contracts".	The issue of whether to refer to 'binding arrangements' in addition to 'contracts' appears to be potentially significant in the NFP sector. Staff believe its consideration would be unlikely to be completed in Stage 1, and therefore recommending identifying this as an issue for Stage 2 of the project.	2

Chapter 5 - Recognition and Derecognition

Issue 31: Recognition criteria

Revised Conceptual Framework	IPSASB Framework	Stage
An item that meets the definition of one of the elements of financial statements, and provides information that is useful in terms of the fundamental qualitative characteristics of relevance and faithful representation. Cost is a constraint on recognition (para. 5.1, 5.7, 5.8). It requires depiction in both words and monetary amount (para. 5.1).	An item satisfies the definition of an element; and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs (para. 6.2). However, note that (para 6.3) provides that IPSASB may make an exception to the need to meet the definition of an element.	2

Staff comments:

The recognition criteria in the Revised Conceptual Framework differ from those in the existing NFP Conceptual Framework. The existing NFP Conceptual Framework requires an item to meet the definition of an element, with it being probable that economic benefits will flow, and there is a cost or value that can be measured reliably. There might be a view that the change to the recognition criteria are unlikely of themselves to give rise to NFP-specific issues.

Some may consider that, at face value, the RCF and IPSASB criteria are similar, and may in practice lead to similar conclusions about the recognition of a particular item. Whereas IPSASB does focus on all qualitative characteristics, most of its analysis seems to consider relevance and faithful representation, i.e. the same criteria used by the IASB.

However, the RCF contains more extensive discussion about the roles of relevance, faithful representation and related existence and measurement uncertainties. There might be a view that these differences may give rise to the following NFP issues:

- The RCF is more explicit that costs constrain recognition decisions. Because the usage of financial information may differ between FP and NFP entities, it is possible that some items may provide considerably less (or more) benefit to users of NFP entity financial statements, compared with users of FP entity statements. This could, in theory, lead to both different recognition outcomes between FP and NFP entities at entity level, and different requirements applying to FP and NFP entities in individual standards.
- Paragraph 5.20 is a FP-focussed discussion of measurement uncertainty. It does not consider issues relevant to NFP entities, such as the inappropriateness of cash-flow-based measurement techniques in many cases; the frequency with which the circumstances in paragraph 5.20 might occur; and the likelihood that in some cases there may be only one tenable measurement basis (replacement cost) and it may not faithfully represent the asset or liability (or associated income, expense or equity). See also RCF paragraph 6.60.
- Paragraph 5.25(a) refers to the effect on profit or equity. This may be of less importance to a NFP entity.

Taking each of these possible issues in turn, staff's views are as follows:

- The possibility of different outcomes of applying the same (or a similar) concept in different sectors might simply reflect differences between the sectors, without calling into question the appropriateness of the concept. In addition, it is not apparent that the lesser coverage of the cost constraint in the IPSASB Framework signifies a NFP reason to modify the AASB's Revised Conceptual Framework. Therefore, staff consider it is unnecessary to include a NFP modification in respect of the cost constraint.
- The reference to cash-flow-based measurement techniques in paragraph 5.20 of the AASB's Revised Conceptual Framework, whilst likely to be less relevant to NFP entities than for-profit entities, would not be irrelevant to NFP entities. For example, a NFP entity might recognise a provision for which observable evidence of fair value does not

exist, and for which a cash-outflow-based measurement might be considered relevant and representationally faithful. In addition, the reference to cash-flow-based measurement techniques in paragraph 5.20 should not of itself be inappropriate in a sector-neutral Conceptual Framework, because it is only an example of where measurement uncertainty may be high. Measurements based on observable market prices would not be appropriate examples of high measurement uncertainty. Nevertheless, staff believe it would be helpful for NFP entities if another (more neutral) example were included. For example, the Chapter does not discuss the challenges of addressing measurement uncertainty in the NFP sector, in those instances in which cash-flow-based measurement techniques would not faithfully represent the service potential embodied in particular non-financial assets. Staff consider such may be helpful if developed, but this would seem likely to require the Board to formulate views on the measurement bases that would be likely to provide the most useful information to users of financial statements of NFP entities. Such a step could not be completed within Stage 1 of the project. Therefore, staff recommend identifying the potential development of NFP-specific examples/other guidance on measurement uncertainty as a task for Stage 2.

- Regarding paragraph 5.25(a), staff believe a reference to 'profit' does not require a NFP-specific modification of the AASB's Revised Conceptual Framework. Although it would be ideal for more sector-neutral language to be used, the use of 'profit or loss' is now well-established in accounting standards applying to for-profit and NFP entities alike. Chapter 7 of the AASB's Revised Conceptual Framework discusses 'profit or loss' as a measure. In addition, AASB 101 *Presentation of Financial Statements* includes a requirement for all entities to disclose their 'profit or loss', without including an Aus paragraph modifying the use of that terminology. Therefore, staff do not believe an Aus paragraph is needed in respect of the reference to 'profit' in paragraph 5.25(a).
- Also regarding paragraph 5.25(a), staff note that the term 'equity' is the subject of draft paragraphs Aus1.151 and Aus4.67.1 modifying the more for-profit aspects of the discussion of equity and equity transactions in the AASB's Revised Conceptual Framework. Staff believe an additional Aus paragraph specifically in relation to paragraph 5.25(a) would be unnecessary.

Issue 32: Derecognition

Revised Conceptual Framework	IPSASB Framework	Stage
Normally occurs when an item no longer meets the definition of an asset or liability, typically loss of control for an asset or the entity no longer has a present obligation for a liability (para. 5.26).	The same criteria are used as for recognition where there is uncertainty about the existence of an element.	2

Staff comments:

The existing NFP Conceptual Framework does not contain specific derecognition criteria. The IPSASB Framework contains only a single paragraph on derecognition, which provides limited information. There may be a view that, with the exception of the detailed issue in the next sentence, the AASB's Revised Conceptual Framework does not appear to raise any specific NFP issues. Paragraph 5.33 of the AASB's Revised Conceptual Framework refers to derecognition where there are modifications in contracts. In NFP entities, particularly public sector entities, it is conceivable that derecognition could also occur in circumstances where rights or obligations are created other than be way of contract e.g. by legislation or international treaty.

Consistent with the staff view expressed above regarding obligations arising otherwise than by contract, staff consider the issue of whether to refer to 'binding arrangements' in addition to 'contracts' for completeness in relation to derecognition appears to be potentially significant in the NFP sector. Staff believe its consideration would be unlikely to be completed in Stage 1, and therefore recommend identifying this as an issue for Stage 2 of the project.

Chapter 6 - Measurement

Issue 33: Measurement objective

Revised Conceptual Framework	IPSASB Framework	Stage
Has no measurement objective.	The objective is to define the bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity…for holding the entity to account and for decision making (para. 7.2).	2

Staff comments:

The IPSASB measurement objective introduces criteria that are not directly present in the AASB's Revised Conceptual Framework, although there might be a view that they could partially align with the RCF concepts of "predictive value" (in relation to capacity to provide services) and "confirmatory value" (in relation to the cost of services).

The IPSASB is identifying these "criteria" as providing the most useful information to users. The IASB provides guidance on information usefulness of different measurement bases without seeing the need to specify a measurement objective. It is possible that the IPSASB objective could result in different measurement requirements at standard level when compared with the IASB. There might be a view that – when combined with the deprival value commentary in the IPSAS framework – the IPSASB's measurement objective theoretically could result in users selecting a different measure of fair value than might be selected under the AASB's Revised Conceptual Framework after applying the IASB-based standard (AASB 13). The extent to which this theoretical difference could occur may need to be tested with constituents.

Staff believe that all assets of a for-profit entity are held primarily to generate net cash inflows the holding of assets; in contrast, the fact that many non-financial assets of NFP entities are held primarily for their service capacity (or operational capacity) might lead to different conclusions about which measurement bases provide the more useful information to users. This fundamental issue seems to warrant consideration when developing a Revised Conceptual Framework for NFP entities, having regard to the IPSASB's measurement objective. These considerations would seem infeasible to complete in Stage 1 of the project. Therefore, staff recommend including this topic in Stage 2 of the project. A key related overarching issue is whether to adopt the Measurement chapter of the AASB's Revised Conceptual Framework, without modification, as an interim step. This issue is discussed in paragraphs 21 – 27 of the Agenda Paper 10.1.

Issue 34: Acceptable measurement bases

Revised Conceptual Framework	IPSASB Framework	Stage
Historical cost and the three current value bases: fair value and current cost for assets and liabilities alike, plus value in use for assets and its liability equivalent: fulfilment value (Table 6.1). One single basis is not mandated.	Historical cost and one current value basis applicable to assets and liabilities (ie, market value), plus two other distinct current value bases that differ between assets and liabilities, namely: • replacement cost for assets and its liability equivalent, assumption price; and • value in use for assets, and its liability equivalent, cost of fulfillment. In addition, one asset basis (net selling price) and one liability basis (cost of release) represent “market value” (adjusted for transaction costs) without assuming an open, active and orderly market. One single basis is not mandated.	2
Staff comments: The IPSASB Conceptual Framework has two additional bases that relax the orderly transaction assumption in the RCF’s concept of fair value. The RCF does not necessarily assume fair value reflects transactions in open, active markets; AASB 13 deals in greater detail with the issue of markets that are inactive (through the fair value hierarchy in that Standard level); the IPSASB does not presently have an equivalent Standard. The fact that many non-financial assets of NFP entities are held primarily for their service capacity is a potential NFP-specific reason for potentially reaching different conclusions about the various measurement bases than those set out in the AASB’s Revised Conceptual Framework. Completing consideration of this issue would be infeasible within Stage 1 of the project. Therefore, staff recommend considering the significance for measurement concepts of NFP entities holding non-financial assets for the service capacity as part of Stage 2 of the project. Consideration of this issue might lead to other measurement basis issues also being considered.		

Issue 35: Selecting a measurement basis

Revised Conceptual Framework	IPSASB Framework	Stage
The measurement basis should provide useful information that must be relevant and faithfully represent the asset or liability, and if possible satisfy the other qualitative characteristics (paragraphs 6.43 – 6.48). Analysis of relevance is primarily related to assessment of the characteristics of the asset or liability (including the variability of cash flows and whether its value is sensitive to market or other risks) and how the asset or liability contributes to future cash flows (paragraphs 6.49 and 6.50).	Primarily driven by the relevance in addressing the measurement objective (see discussion of that issue above), and the extent to which they meet the qualitative characteristics, principally relevance (for example, paragraphs 7.16 – 7.21). To some extent, a deprival value methodology is used implicitly to set upper or lower limits on measurements (e.g. paragraph 7.26 for market value, paragraph 7.42 for replacement cost and paragraph 7.59 for value in use), although the IPSASB did not formally endorse the deprival value model (see paragraphs BC7.37 – BC7.39 of the IPSASB’s Basis for Conclusions).	1 & 2

Staff comments:

The nature of assets (and liabilities) in NFP entities can give rise to issues in selecting a measurement basis that do not occur in FP entities (for example 6.14, regarding cash-flow-based measurement techniques is less relevant for NFP entities).

For example, NFP entities frequently hold specialised assets with no ready market, and that are not used primarily to generate net cash inflows. This may make market and income-based techniques difficult to apply to those assets. There might be a view that other examples of NFP-specific issues affecting the choice of measurement basis include: negligible (or "negative") selling prices for specialised assets, excessive risk premiums demanded to assume public sector liabilities, and longevity of NFP entities' assets reducing the usefulness of historical cost information. There also might be a view that these issues may not warrant comprehensive discussion in the AASB's Revised Conceptual Framework if they can be accommodated at standards level e.g. in the past, in assessing impairment they were dealt with in AASB 136 by specifying different "values in use" (and paragraphs 44 – 49 of IPSAS 21 *Impairment of Non-Cash-Generating Assets* continue to reflect that approach to recoverable amount). In Australia, the selection may be constrained for those entities applying AASB 1049, due to GFS requirements that focus on use of market value (i.e. fair value) techniques.

As is noted in the discussion above regarding 'Acceptable measurement bases', at least one characteristic of some assets and liabilities of NFP entities gives rise to a potential NFP-specific reason for reaching different conclusions about the various measurement bases than those set out in the AASB's Revised Conceptual Framework. Staff recommend considering those issues as part of Stage 2 of the project.

In addition, Agenda Paper 10.1 includes a staff recommendation to exclude from the scope of paragraphs 6.55 – 6.56 of the AASB's Revised Conceptual Framework all:

- non-financial assets of NFP entities held primarily for their service potential (ie not primarily to generate net cash inflows); and
- non-financial liabilities, eg provisions for restoration, that arose in connection with the use of those scoped-out assets.

This exclusion is recommended because staff consider that, for these assets and liabilities, whether they generate cash flows directly or indirectly has no bearing on the relevance of different measurement bases to them. Staff recommend reflecting this exclusion in the version of the AASB's Revised Conceptual Framework developed in Stage 1 of this project. Project Advisory Panel members have questioned whether non-financial liabilities should be scoped out of paragraphs 6.55 – 6.56, and have asked whether the issue regarding certain non-financial assets could be addressed through additional guidance rather than scoping out. These issues are discussed in paragraphs 29 – 32 of Agenda Paper 10.1.

Issue 36: Transaction costs

Revised Conceptual Framework	IPSASB Framework	Stage
These are discussed integrally with the discussion of various measurement bases (table 6.1).	Not comprehensively considered (they are referred to in passing in paragraph 7.25 regarding historical cost and paragraph 7.50 regarding net selling price).	2

Staff comments:

There might be a view that the difference between the two Frameworks regarding the extent to which transaction costs are discussed may give rise to different decisions by entities about inclusion of transaction costs in measuring assets and liabilities; but that, in most cases, such difference would be small.

Staff believe consideration of the treatment of transaction costs should be subsumed within the analysis of the measurement bases to which they relate. That is, staff believe the treatment of transaction costs should be consistent with the measurement basis adopted. As mentioned above in relation to 'Selecting a measurement basis', staff consider potential NFP-specific reasons for reaching different conclusions about the various measurement bases than those set out in the AASB's Revised Conceptual Framework warrant consideration as part of Stage 2 of the project.

Issue 37: Terminology in Chapter 6

Revised Conceptual Framework	Staff comment	Stage
Own credit risk (paragraphs 6.3(c) and 6.15) – there might be a view that own credit risk is unlikely to be applicable to individual government departments, and some other NFP entities that are not legal entities.	Staff do not have a view about the scope of applicability of own credit risk in liability measurement, because this issue would potentially be affected by the identification of a measurement objective for financial reporting in the NFP sector (if one would be identified, for example, one serving a role similar to that in the IPSASB Framework). A related issue for future consideration is whether concerns about references to own credit risk relate to the description of applying a particular measurement basis—e.g. fair value, in the case of paragraph 6.15—or with the appropriateness of a particular measurement basis in a NFP entity context. For these reasons, staff recommend considering this issue in Stage 2 of the project.	2
Onerous contracts (paragraph 6.8) – Paragraph 6.18(b) refers, in the context of the historical cost basis, to a liability *becoming* onerous, seemingly implying a liability would not be onerous on initial recognition. There might be a view that certain arrangements in the NFP sector (e.g. the public NFP sector) may mean that the historical cost of a liability is not sufficient to depict the fulfilment value of the obligation at the initial incurrence of the liability. This potentially has consequences for the public sector (at least), particularly as the AASB's Revised Conceptual Framework refers to onerous liabilities and not simply onerous contracts.	On one hand, it might be considered possible for a liability of an entity in any sector to be onerous on initial recognition. However, in the NFP sector it seems much more likely that the consideration (if any) received by an entity for incurring an obligation might be less than the obligation's fulfilment value on initial incurrence (due to the prevalence of unequal exchange transactions). Thus, the possible view referred to at the left would seem to have much greater potential application in the NFP sector than the for-profit sector. Staff believe there is a strong case for an Aus paragraph noting that liabilities can be onerous on initial recognition in the NFP sector. However, staff also consider this issue should be addressed as part of a more fundamental consideration of the NFP modifications potentially needed for the Measurement chapter. Therefore, staff recommending addressing this issue in Stage 2.	2
Predictive and confirmatory value (paragraphs 6.30, 6.32, 6.37 etc) – the RCF focusses on these values in assessing cash flows. There might be a view that, in	As noted above, staff recommend a broad-ranging consideration of which NFP modifications should be made to the Measurement chapter in Stage 2 of the project, in addition to making some modifications in Stage 1. That consideration	1 & 2

NFP entities, information about assets and liabilities may also provide predictive or confirmatory value about service delivery.	would include whether to include a modification regarding the focus of predictions and confirmations. At the very least, in relation to Stage 1, draft paragraph Aus1.16.1 of the attached working draft of a further Revised Conceptual Framework states that information about a NFP entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful for predicting the volume and cost of future services and the sustainability of future service delivery. A Project Advisory Panel member suggested merging paragraphs Aus1.16.1 and Aus1.18.1. Staff will consider that suggestion and update the Board at a future meeting; however, this drafting issue does not affect the principles expressed in those two draft Aus paragraphs.	
Different markets (paragraph 6.35) – This paragraph refers to circumstances in which an asset is acquired in a different market than the one referred to in measuring its fair value. There might be a view that this may happen in the NFP sector in a way that occurs before fair value is first determined, although it is unclear whether this is something unique to the NFP sector. There might also be a view that related paragraph 6.36 concerning different and similar markets may also need to be considered in a NFP context.	Staff believe this potential issue would need longer to consider than the timeframe for Stage 1 of the project. Therefore, staff recommend including this potential issue in the matters for consideration in Stage 2.	2
Central estimates (paragraphs 6.91-6.95) – there might be a view that the nature of assets and liabilities and long timeframes in some NFP entities may make it difficult to even determine a range of possible outcomes; and/or restrict the reporting of the range of possible outcomes and probabilities to a reasonable level.	Staff note that the section on cash-flow-based measurement techniques (paragraphs 6.91 – 6.95) refers to those techniques as one way to estimate a measure when the measure cannot be observed directly. Some potential concerns with applying those techniques and making related disclosures in the NFP sector might indicate that cash-flow-based measurement techniques are inappropriate for particular assets and liabilities. However, if such techniques were applied, the potential concerns noted at the left would seem to potentially arise in the for-profit sector as well as the NFP sector. Therefore, staff recommend not to include a NFP modification for this matter.	N/A

Chapter 7 - Presentation and Disclosure

Issue 38: Scope

Revised Conceptual Framework	IPSASB Framework	Stage
Communicates information about assets, liabilities, equity, income and expenses in financial statements (para. 7.1).	Does not limit itself to communicating information about the elements of financial reporting, nor does it limit itself to financial statements (para. 8.1-8.10).	2

Staff comments:

As a consequence of the IPSASB Framework's scope, it notes that decisions may need to be made about the contents of individual reports within the meaning of GPFR, thus potentially influencing the content of financial statements.

The IPSASB Framework notes that information in financial statements might also include that which might inform compliance of the entity with legislation etc, assess efficiency and effectiveness in service delivery, and compliance with approved budgets. This potentially includes information other than that about assets, liabilities, equity, income and expenses.

As noted above regarding the issue 'Concept of general purpose financial reports', staff believe the AASB's Revised Conceptual Framework can be applied by NFP entities without necessarily addressing whether the scope of GPFRs should be identified more broadly for NFP entities. That issue can be addressed within Stage 2 of the project; its temporary absence from a NFP Conceptual Framework should not impede the application of that Framework by NFP entities. This is particularly the case because decisions about the scope of GPFRs of NFP entities would in the first instance be a matter for the AASB and also consideration would need to be given to whether this scope decision extends to for-profit entities as well.

Issue 39: Principles of disclosure

Revised Conceptual Framework	IPSASB Framework	Stage
Includes concepts such as relevance and faithful representation; comparable information; entity-specific information is more useful than standardised descriptions; duplication is unnecessary and can make statements less understandable. Individual standards could include presentation and disclosure objectives (paragraphs 7.4-7.6).	Involves consideration of the objectives of financial reporting; qualitative characteristics and constraints, including substance over form (paragraphs 8.25-8.29). Individual standards could include more information about disclosure (paragraphs 8.33).	N/A

Staff comments:

It is not apparent from the IPSASB Chapter on Presentation that NFP-specific differences arise compared with the AASB's Revised Conceptual Framework. Therefore, staff do not propose to modify Chapter 7 of the AASB Framework for NFP issues

Issue 40: Statement of profit or loss

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td>The statement of profit or loss (i.e. the statement of financial performance not including other comprehensive income) is the primary source of information about an entity’s financial performance for the reporting period (paragraph 7.16).</td><td>The relationship between items of profit or loss and other comprehensive income is not dealt with in the IPSASB framework (paragraphs 5.29 – 5.32).</td><td>2</td></tr>
<tr><td colspan="3">Staff comments:
The might be a view that, for NFP entities, the statement of profit or loss may not be as important in providing information about financial performance because:
• Profit or loss, the total at the foot of the statement of profit or loss, may not be the prime financial indicator for NFP entities;
• Other information about performance might be relevant, such as information about service performance and costs of individual services; and
• IPSAS does not presently have a “two-part” statement of financial performance, separating OCI from other income and expenses.
Staff note that the ‘profit or loss’ of a NFP entity is an important metric for assessing such matters as whether the NFP entity is recovering its cost of services and, consequently, the sustainability of its current level of service delivery. However, the issue of whether the RCF’s classification scheme for the components of comprehensive income is conceptually appropriate for NFP entities seems to warrant in-depth consideration, which would not be feasible within a realistic timeframe for Stage 1 of the project. Therefore, staff recommend making no change to the AASB’s Revised Conceptual Framework for Stage 1 of the project, but identifying this issue for consideration in Stage 2.</td></tr>
</table>

Issue 41: Aggregation

<table>
<tr><th>Revised Conceptual Framework</th><th>IPSASB Framework</th><th>Stage</th></tr>
<tr><td>Different levels of aggregation may be needed in different parts of the financial statements, e.g. more details in the notes (paragraph 7.22).</td><td>In effect, a similar distinction is made in paragraphs 8.17 and 8.21.</td><td>N/A</td></tr>
<tr><td colspan="3">Staff comments:
There might be a view that different disclosures might be made for for-profit and NFP entities due to their differing information user needs. For example, in charities, disaggregated information about administration costs and costs of fund raising may be important; in the public sector, there may be more user need for information about unsummarised individual transactions.
As the IPSASB Framework applies to financial reports, broader than just financial statements, there might be a view that different levels of aggregation might need to be considered in different reports. However, this would be addressed by IPSASB at standard level.
Whilst staff note that some different disclosures and different levels of aggregation might be adopted in NFP entity financial reports compared with those of for-profit entities, this would seem to reflect differences in user needs, rather than differences in presentation and disclosure concepts appropriate for the different sectors. Staff are unaware of a NFP-</td></tr>
</table>

specific reason to amend the presentation and disclosure concepts in Chapter 7 of the AASB's Revised Conceptual Framework, except possibly regarding the role of 'profit or loss', and specifically not in relation to concepts of aggregation.

Issue 42: Information organisation

Revised Conceptual Framework	IPSASB Framework	Stage
Primarily focusses on classification decisions required for each of the elements (paragraphs 7.7-7.19).	Primarily focusses on organization of the information, such as structure and location (paragraphs 8.45-8.64).	N/A
Staff comments: The IPSASB Framework contains more detailed information about information organisation. However, there might be a view that this does not appear to raise NFP-specific issues, as the IPSASB's discussion of information organisation contains broad principles that would need to be considered in all entity-level decisions about presentation and disclosure. Further, where some of the decisions could be critical, they might be dealt with by the IASB in more detail in its Disclosure Initiative project. Staff are unaware of any NFP-specific reason to modify the conceptual discussion of information organisation in the AASB's Revised Conceptual Framework. Future developments in the IASB's Disclosure Initiative project might prompt insights that lead to a re-evaluation of that view. At this stage, staff recommend not to modify Chapter 7 in respect of information organisation.		

Chapter 8 - Concepts of Capital and Capital Maintenance

Issue 43: Implications of holding particular non-financial assets primarily for their service potential

Revised Conceptual Framework	IPSASB Framework	Stage
Depending on the needs of users, an entity adopts either a financial concept of capital (such as invested money or invested purchasing power, where capital is synonymous with equity) or a physical concept of capital (such as operating capability), where capital is regarded as the productive capacity of the entity to produce outputs. The concept of capital chosen indicates the goal to be attained in determining profit (paragraphs 8.1 – 8.2). Under the concept of financial capital maintenance, profit represents the increase in nominal money capital over the period, except that, if financial capital is defined in units of constant purchasing power, profit represents the increase in invested purchasing power over the period—this is	There is no equivalent section in the IPSASB Framework. The Basis for Conclusions on the IPSASB Framework includes a comment that "The IPSASB accepts that the operating capability concept is relevant and could be developed for public sector entities with a primary objective of delivering services." However, the IPSASB decided not to stipulate an ideal concept of capital, particularly operating capability, largely because doing so would seem dismissive of historical cost measures, which can provide relevant information (paragraph BC7.5).	2

measured by deducting from nominal money capital profit a capital maintenance adjustment representing the loss of the general purchasing power of the monetary unit (paragraph 8.7). Under the concept of physical capital maintenance, profit represents the increase in physical productive capacity over the period. All price changes affecting the entity's assets and liabilities are treated as remeasurements of the same physical productive capacity and hence excluded from profit (they are treated as capital maintenance adjustments) (paragraph 8.8). The Framework does not prescribe a particular measurement model (paragraph 8.9).		

Staff comments:

This chapter of the AASB's Revised Conceptual Framework has been carried over unchanged from the existing NFP Conceptual Framework.

Staff consider there is a potential NFP-specific issue regarding concepts of capital and capital maintenance, particularly in view of NFP entities holding various non-financial assets primarily for their service potential (ie not held primarily to generate net cash inflows, as staff beli is the case for all assets of for-profit entities). Staff also consider this issue is integral with the issue of whether to modify the Measurement chapter in light of NFP entities holding various non-financial assets primarily for their service potential. Furthermore, staff believe that, although the IPSASB did not enunciate an ideal concept of capital in its Framework, its identification of "operational capacity and financial capacity" as foci of its 'measurement objective' (see first 'Measurement' issue above) has parallels with 'physical' and 'financial' concepts of capital. In relation to these points, staff suggest noting that:

- the AASB's submission on the IASB's Discussion Paper for its Revised Conceptual Framework argued that an ideal concept of capital (or wealth) should be identified by the Framework. The AASB recommended operating capability for this purpose (see next bullet point); and
- the term 'physical capital' is somewhat of a misnomer – therefore, the ability to adopt a single concept of capital for all of an entity's assets and liabilities should not be impeded. The AASB's Revised Conceptual Framework states that adopting a 'physical' concept of capital requires the adoption of the current cost basis of measurement (paragraph 8.5). Although the AASB's Revised Conceptual Framework states that a physical concept of capital regards capital as the entity's physical productive capacity (paragraphs 8.1 and 8.8), it also refers to operating capability as an interchangeable notion. Operating capability has been articulated as a broader notion than physical capacity; for example, the AASB argued in its submission on the IASB's Discussion Paper for its Revised Conceptual Framework that operating capability can be applied to financial and non-financial assets and liabilities (e.g. the financial capacity and operating capacity of a financial asset should not differ)[1]. The fact that the current cost model includes a recoverable amount test also supports the view that operating capability is not a physical concept (any more than is measuring fair value at current replacement cost, where appropriate).

For the reasons above, staff recommend considering in Stage 2 of the project whether to modify the chapter on Concepts of Capital and Capital Maintenance for NFP-specific issues.

Staff also considered the existing exemption of NFP entities (in paragraph AusCFAus136.2 of AASB 101 *Presentation of Financial Statements*) from the requirement in paragraphs 134 – 136 of AASB 101 to disclose information about an entity's objectives, policies and processes for managing capital (while IPSASs require such disclosures). In the context of these

1 The AASB described an entity's 'operating capability' as "its ability, at any given time, to carry out its activities at the scale determined by its then-existing resources, both monetary and non-monetary".

disclosure requirements, ‘capital’ is not necessarily equivalent to ‘capital’ as referred to in paragraphs 8.1 – 8.2 of the RCF (e.g. paragraph 135(b) of AASB 101 states that some entities regard some financial liabilities as part of the capital they manage).

Staff consider that, because the disclosure requirement about how an entity manages its capital is specified at a Standards level by the AASB (and by the IASB and IPSASB), any review of the scope exemption should be performed at a Standards level, although informed by the disclosure concepts in the RCF. In addition, because the meanings of ‘concept of capital’ in the RCF and ‘capital being managed’ in AASB 101 are subtly different, addressing this AASB 101 exemption in the RCF could cause some confusion. Therefore, staff recommend excluding this issue from consideration as part of the NFP Conceptual Framework project.