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International Public Sector Accounting Standards Board (IPSASB)  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**Re: Response to Exposure Draft 81, Conceptual Framework Update: Chapter 3, Qualitative Characteristics, and Chapter 5, Elements of Financial Statements**

Thank you for the opportunity to provide input on Exposure Draft 81 (ED 81), *Conceptual Framework Update: Chapter 3, Qualitative Characteristics, and Chapter 5, Elements of Financial Statements*.

The comments set out in this letter are the views of PSAB. PSAB agrees with the following proposals:

- Provision of guidance on the role of prudence in supporting neutrality and IPSASB's decision to not include prudence as its own qualitative characteristic. PSAB's proposal in its new Conceptual Framework, to be approved in June 2022, also identifies prudence as a consideration in determining the information to be included in financial statements.
- Addition of obscuring, misstating, or omitting information as factors relevant to materiality judgements.
- Adoption of a rights-based approach to the description of resources in the context of an asset. Although PSAB has an alternative view about whether sovereign rights meet the definition of a resource, the Board agrees with the conclusion that a government's inherent powers do not give rise to assets until these powers are exercised.
- The revised definition of a liability and the restructured guidance on liabilities.
- The guidance on the transfer of resources. However, PSAB has concern about an obligation meeting the definition of a liability even if the probability of a transfer of resources is low.

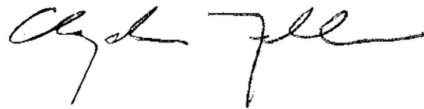
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- The addition of the section related to Unit of Account. PSAB is of the view that providing examples specific to the public sector would be helpful for stakeholders to clarify questions associated with what a “unit of account” entails.
- The guidance on principles for binding arrangements that are equally unperformed and with the previous IPSASB decision to incorporate executory contracts accounting principles into the IPSAS while rejecting the term “executory contracts”.

Finally, PSAB also included some editorial comments for IPSASB to consider at the end of this document.

We hope that you find the comments helpful.

Kind regards,



Clyde MacLellan  
Chair, Public Sector Accounting Board

*On behalf of the Public Sector Accounting Board (PSAB)*

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## **RESPONSES TO SPECIFIC MATTERS FOR COMMENT**

### **Specific Matter for Comment 1: Prudence**

In paragraphs 3.14A and 3.A4B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A - BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

### **PSAB Response**

PSAB agrees with the proposed guidance on the role of prudence and the rationale provided in BC 3.17A – BC 3.17E. We agree that the concept of neutrality within the qualitative characteristic of faithful representation is supported by the exercise of prudence. However, in PSAB's opinion, prudence is broader than merely a qualitative characteristic of financial information. Prudence is inherent in the application of professional judgment and is necessary to achieve an appropriate balance amongst the qualitative characteristics while meeting the objectives of financial reporting. The IPSASB is asked to consider this broader view of prudence in finalizing its update to its conceptual framework.

### **Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgements**

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgments. The reasons for this addition are in paragraphs BC3.32A and BC3.32B.

Do you agree with the addition of obscuring information to factors relevant to materiality judgements? If not, why not?

### **PSAB Response**

PSAB agrees with the addition of obscuring information to misstating or omitting information as factors relevant to materiality judgements and that it is not possible to set a uniform threshold for materiality. This approach is consistent with the changes made by the International Accounting Standards Board (IASB) in its 2018 Conceptual Framework. It is also consistent with PSAB's new Conceptual framework to be approved in June 2022, in paragraph 7.40, which reads:

“Information is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make based on the financial statements.”

Recognizing the broader nature of materiality and to ensure that the understanding of its consideration when making presentation choices will be applied consistently, PSAB suggests amending the text of the last sentence of paragraph 3.32 as follows:

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“An entity makes the presentation decisions for its GFPR with reference to Chapter 8 of the IPSASB conceptual framework. It would make those choices, for example the aggregation, ordering and grouping of items displayed, etc., with reference to the materiality assessments of individual items. However, in circumstances where an entity judges that an individually material item is not separately presented in the financial statements or is not presented as prominently as its materiality might otherwise warrant, the entity might mitigate the less desirable presentation through disclosure.”

Chapter 8 of IPSASB Conceptual Framework provides guidance on presentation decisions such as the aggregation, ordering and grouping of items displayed, etc. If an entity makes these presentation decisions without reference to materiality and based on the last sentence in paragraph 3.32, this could mean that an individually material item is not separately presented in the financial statements or is not presented as prominently as its materiality might otherwise warrant. In such cases, the less desirable presentation for materiality purposes might be mitigated through disclosure. While we recognize that the conceptual framework is to be read as a whole, as the sentence in paragraph 3.32 currently reads, the IPSASB’s intent is not clear.

**Specific Matter for Comment 3: Rights – Based Approach to Resource Description**

Paragraphs 5.7A - 5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraph BC5.3A - BC5.3F.

Do you agree with this proposed change? If not, why not?

**PSAB Response**

PSAB agrees with the rights-based approach to the description of a resource. The updated description of a resource is a right to service potential or the capability to generate economic benefits or both. PSAB is of the view that while this definition might work for most rights, it would not work for sovereign rights. Invoking a sovereign right may give rise to resources that will meet the definition of an asset, but the right itself is not a resource. The right is a tool, that if used, will allow a government to acquire resources. Although IPSASB’s view is different and implies that sovereign rights are resources, paragraph BC 5.18 concludes that the government’s inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits. PSAB agrees with that conclusion.

There are also differences between the proposed IPSASB paragraphs and the IASB equivalent. The reason for these differences may not be clear to stakeholders and should perhaps be explained in the Basis for Conclusion.

The differences that PSAB noted are as follows:

- Paragraph 5.7A(b)(i) → Outlines those rights to service potential or the capability to generate economic benefits may take many forms, including rights that do not correspond to an obligation of another party. For example, rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right

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to use a physical object or right to benefit from a leased object. However, the original paragraph from the IASB 2018 Conceptual Framework outlines “a right to benefit from the residual value of a leased object.”

- Paragraph 5.7C → Outlines that “an entity’s capability to obtain the service potential or economic benefits produced by such services exists very briefly until the entity consumes the goods and services”. The IASB guidance uses the word “right” instead of “capability” and the word “momentarily” instead of “very briefly”. Although “momentarily” was replaced with “very briefly” per Board instructions, the words “right” and “capability” have different meaning and might impact stakeholders’ interpretation of the paragraph.
- Paragraph 5.7E excluded point (d) from the IASB original paragraph 4.11 as it was considered unnecessary. This decision limits the rights arising from legal ownership of a physical object to (a) use of the object; (b) sell rights over the object; and (c) pledge rights over the object. Point (d) expanded the possibility of rights arising from legal ownership of a physical object by adding “other rights not listed in (a) – (c)”. The fact that IPSASB did not include point (d) might create confusion among stakeholders as they might interpret that legal ownership of a physical right arises only in the circumstances listed in (a)-(c), where as the IASB original paragraph is broader and more inclusive because of the addition of point (d).
- Paragraph 5.7B lists a debt instrument (such as a student loan) as an example of how an entity may establish rights but did not include the example related to equity instruments from the original text in paragraph 4.7 from the IASB Conceptual Framework. Based on the September 2021 meeting agenda, paragraph 4.10 from the IASB Conceptual Framework was not included in the IPSASB Conceptual Framework because it discusses debt and equity instruments, which are not common in the public sector. PSAB agrees with that conclusion and for consistency purposes, suggests that the example related to debt instruments in paragraph 5.7B be removed.

**Specific Matter for Comment 4: Definition of a Liability**

The revised definition of a liability is in paragraph 5.14:

*A present obligation of the entity to transfer resources as a result of past events.*

The reasons for a revised definition are in paragraphs 5.18A - 5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

**PSAB Response**

PSAB agrees with the revised definition of a liability as it clarifies the underlying concepts and contains the same or similar components as the IASB definition. PSAB also notes that the definition of a liability continues to refer to a “present obligation” and this notion helps distinguish between present and future obligations.

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**Specific Matter for Comment 5: Guidance on the Transfer of Resources**

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A - 5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A - BC5.19D.

Do you agree with this guidance? If not, how would you modify it? PSAB  
Response

PSAB agrees with the guidance on the transfer of resources in paragraphs 5.16A - 5.16F of the section on Liabilities. Although this guidance is consistent with the IASB 2018 Conceptual Framework, PSAB notes that under paragraph 5.16B it states that:

“an obligation can meet the definition of a liability even if the probability of a transfer of resources is low”.

PSAB is of the view that paragraph 5.16B could lead to an increase in the number of the items considered as liabilities and create unintended consequences such as a presumption that, in principle, every possible liability should be recognized despite being irrelevant or measured at nil. Furthermore, once the element definitions, the recognition criteria and the measurement guidance in the IPSASB conceptual framework are applied, it is likely that items with low likelihood of realization will either not be recognized or will be measured taking into account the extent to which they are expected to be realized.

**Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities**

In addition to the guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities, so it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A - 5.17D. Paragraph BC5.18H explains the reasons for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

**PSAB Response**

PSAB agrees with the restructuring of the section, Liabilities. The section is easy to understand, and the flow is logical and aligned with the definition of Liabilities.

**Specific Matter for Comment 7: Unit of Account**

The IPSASAB has added a section of Unit of Account in paragraph 5.26A - 5.26J. The reasons for proposing this section are in paragraphs BC5.36A - BC5.36C.

Do you agree with the addition of a section on Unit of Account and its content? If not, how would you modify it and why?

**PSAB Response**

PSAB agrees with the addition of a section of Unit of Account and its content as it is consistent with the IASB 2018 Conceptual Framework. PSAB notes that paragraph 4.55 in the IASB 2018 Conceptual Framework, which provides examples of possible units of accounts, was not included in the IPSASB Conceptual Framework because IPSASB's view is that the examples were too low level and unnecessary. Although IPSASB acknowledges that this guidance is available at the standards level, the guidance on unit of account introduces a new concept to stakeholders, and examples on possible units of accounts specific to the public sector might be helpful to determine which unit of account to use, particularly in paragraphs 5.26B and 5.26C.

**Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed**

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraph 5.26G - 5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D - BC5.36F.

Do you agree that:

- (a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so
- (b) Such guidance should be included in the Unit of Account section, rather than in a separate section?

If you do not agree, please give your reasons.

**PSAB Response**

PSAB agrees that guidance for binding arrangements that are equally unperformed is necessary as they are applicable to public sector entities. The guidance is consistent with the IASB 2018 Conceptual Framework and with IPSASB's prior decision to incorporate the accounting principles of executory contracts into IPSAS while rejecting the term "executory contracts". Paragraph BC5.36F clearly explains the specific public sector circumstances that led IPSASB to use the term "binding arrangements" instead of "executory contracts" as suggested in the IASB 2018 Conceptual Framework.

However, PSAB disagrees with the recommendation to include the guidance in the Unit of Account section for the following reasons:

- The IPSASB Board decided to incorporate executory contracts accounting principles but rejected the term executory contracts, and

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- Paragraphs 5.26G and 5.26H were drawn from the IASB 2018 Conceptual Framework and in the original source these paragraphs are under a separate section named “Executory Contracts”.

For consistency purposes, PSAB suggests including the guidance on principles for binding arrangements as a separate section as it would provide more clarity and avoid confusion among users that this might represent a deviation from the IASB 2018 Conceptual Framework.

*Editorial Suggestions:*

- **Paragraph 5.17C, bullet 1:** Consider referring to the three criteria of a liability in paragraph 5.14A, in the preamble, before the bullets. PSAB has concern that some obligations may not be a liability but are only obligations to be disclosed – i.e., that some obligations may not meet all criteria to be a liability.
- **Paragraph 5.17C, bullet 2:** Consider changing “which” to “that”. It is the proper use of the two terms and makes the sentence clearer.
- **Paragraph 5.26H:** Consider adding explanations as to why the statements “That right is an asset” and “That obligation is a liability” are valid. For example, by stating that the reporting entity’s performance is a past event that gives rise to the control of the resource (right).
- **Paragraph 5.26J:** Consider further explanation as to why treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Is the difference just the dissimilarity of items? How would users understand the difference?
- **Paragraph BC 3.17D:** Consider revising the sentence “Practical application of IPSASB Conceptual Framework has not identified that the non – inclusion of prudence as a qualitative characteristic is problematic”. The current statement contains two negative words used in one sentence and the opposite meaning may be conveyed.
- **Paragraph BC5.3C:** Consider changing “... a conceptual approach which...” to “a conceptual approach that...”.