

# International Summary Comparison – PSAB’s Proposed Conceptual Framework and the IPSASB’s Existing Conceptual Framework

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## Introduction

In May 2020, the Public Sector Accounting Board (PSAB) committed to continue developing future Public Sector Accounting Standards (PSAS) that serve the public interest. When developing future standards, PSAB will now use the International Public Sector Accounting Standards’ (IPSAS) principles if an IPSAS equivalent already exists and the Board determines that a modification of those principles is not required.

The document entitled “[Criteria for modifying and reviewing IPSAS Principles](#)” states that “PSAB will amend a principle in an IPSAS standard if it is contrary to PSAB’s conceptual framework.” This international summary comparison document provides stakeholders an overview of the differences between PSAB’s proposed Conceptual Framework and the International Public Sector Accounting Board’s (IPSASB) existing Conceptual Framework.

Please note: This comparison prepared by staff was not approved by PSAB. It is not meant to be a complete overview nor an identification of all the differences.

## Summary Comparison

The Conceptual Framework comparison is based on the key concepts proposed in PSAB’s Exposure Draft, “[The Conceptual Framework for Financial Reporting in the Public Sector](#).”

The following table identifies the differences between PSAB’s proposed Conceptual Framework and IPSASB’s existing Conceptual Framework. The main difference is with the measurement attribute: PSAB specifies a default measurement attribute that should be used. The IPSASB does not.

The comparison is based on the following classifications:

### Similar/Consistent

Staff thinks that the concepts are similar.

### Minor Differences Noted

Staff thinks that the differences would not have significant implications for setting future standards.

### Difference Noted

Staff thinks that the concepts are different and may have a significant impact on setting future standards.

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Subject	Comparison
Characteristics of public sector entities	<b>Similar/Consistent</b>
Objective of financial reporting	<b>Similar/Consistent</b>
Primary users of financial reporting	<b>Minor Differences Noted</b>
Information needs of users	<b>Similar/Consistent</b>
Role of financial statements	<b>Similar/Consistent</b>
Financial statement foundations <sup>1</sup>	<b>Similar/Consistent</b>
Financial statement objectives	<b>Minor Differences Noted</b>
Qualitative characteristics	<b>Similar/Consistent</b>
Considerations/constraints	<b>Minor Differences Noted</b>
Elements of financial statements	<b>Minor Differences Noted</b>
Asset and liability definitions	<b>Minor Differences Noted</b>
Revenue and expense definitions	<b>Minor Differences Noted</b>
Recognition criteria	<b>Minor Differences Noted</b>
Derecognition	<b>Similar/Consistent</b>
Measurement attribute	<b>Difference Noted</b>
Presentation definition	<b>Similar/Consistent</b>
Presentation objective	<b>Similar/Consistent</b>

<sup>1</sup> Although the IPSASB does not have a separate section in its conceptual framework articulating the financial statement foundations, the financial statement foundations PSAB identified appear throughout the IPSASB's Handbook of International Public Sector Accounting Pronouncements.

## Comparison and Implications of Differences Noted

### Primary users of financial reporting

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The public and its elected or appointed representatives are the primary users of public sector financial reports. (Proposed paragraph 3.08 of Chapter 3)	...the primary users of [general purpose financial reports] GPFs are service recipients and their representatives and resource providers and their representatives. (Paragraph 2.4 of the Conceptual Framework)



#### **What does this difference mean for setting future standards?**

The primary users identified in IPSASB's Conceptual Framework extend beyond the general public and its elected or appointed representatives.

The practical implications of this difference may not be significant, but different information could be included in financial statements prepared under IPSAS to address the needs of these additional users.

PSAB would need to determine if this information provides additional accountability to the primary users identified in the Canadian framework and, as a result, should be part of a future standard.

## **Financial statement objectives**

In Chapter 6 of its Exposure Draft, PSAB identified six financial statement objectives:

1. determining the scope of financial statements;
2. reporting financial position;
3. reporting changes in financial position;
4. comparing actual performance to that projected in the budget;
5. disclosing non-compliance with financial authorities; and
6. disclosing risks and uncertainties.

The IPSASB does not include a section on financial statement objectives in its Conceptual Framework.



### **What does this difference mean for setting future standards?**

Articulating the financial statement objectives within a conceptual framework is unique to PSAB and has roots in how the Public Sector Accounting and Auditing Committee (PSAAC)<sup>2</sup> originally built consensus on what financial statements should report.

PSAB believes there is merit in articulating the financial statement objectives. They flow from and are consistent with the broad accountabilities for public sector financial reporting set out in Chapter 3 of the proposed Conceptual Framework. They provide the basis for determining the principles for the reporting model and the focus of each statement, or “indicators” to be reported on each statement.

See “[International Summary Comparison of PSAB's Proposals for a Revised Reporting Model and the IPSASB's Reporting Model](#)” for a high-level review of how PSAB's and the IPSASB's reporting models differ.

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<sup>2</sup> In 1981, the Institute of Chartered Accountants of Canada established PSAAC after consulting with senior government stakeholders who saw the need for a comparable and consistent approach to financial reporting by Canadian governments. In 1993, PSAAC was renamed Public Sector Accounting and Auditing Board (PSAAB), a standard-setting board. In 1999, PSAAB was renamed PSAB when responsibility for public sector auditing standards was transferred to the Auditing and Assurance Standards Board.

## Considerations/constraints

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>The considerations to take into account in striving to achieve a balance among the qualitative characteristics include:</p> <ul style="list-style-type: none"><li>• benefit versus cost;</li><li>• materiality; and</li><li>• prudence.</li></ul> <p>(Proposed paragraph 7.31 of Chapter 7)</p>	<p>Pervasive constraints on information included in GPFs are materiality, cost-benefit; and achieving an appropriate balance between the characteristics. (Paragraph 3.3 of the Conceptual Framework)</p>

Considerations are what an entity takes into account when determining the information to include in financial statements. The IPSASB calls these “constraints” in its Conceptual Framework.

PSAB introduced prudence as a consideration as it is inherent when applying professional judgment – required when considering the accounting of transactions and other events. The IPSASB’s constraints do not currently include prudence. However, the IPSASB is considering if it should be added as part of its limited-scope update of the Conceptual Framework.

The IPSASB’s Conceptual Framework includes achieving a balance between the qualitative characteristics as a constraint. In contrast, PSAB’s proposed Conceptual Framework identifies the considerations that need to be taken into account to achieve a balance among the qualitative characteristics.



### What do these differences mean for setting future standards?

These differences are not considered significant differences in intent or substance. As a result, they are not expected to impact the setting of future standards.

## Elements of financial statements

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
For financial statement, the elements are assets, liabilities, revenues and expenses. (Proposed paragraph 8.07 of Chapter 8)	The elements ... are: <ul style="list-style-type: none"><li>• Assets;</li><li>• Liabilities;</li><li>• Revenue;</li><li>• Expense;</li><li>• Ownership contributions; and</li><li>• Ownership distributions.</li></ul> (Paragraph 5.5 of the Conceptual Framework)  [Other resources and other obligations are categories in addition to the elements, to be reported on the statement of financial position. See paragraphs 5.4, 5.27 and 5.28 of the Conceptual Framework.]

### *Ownership contributions and ownership distributions*

PSAB considered including ownership contributions and ownership distributions, but concluded that:

- differentiating between ownership contributions and government transfers for many public sector entities was problematic;
- ownership contributions and ownership distributions are rare in the public sector, and including them in the Conceptual Framework would give them undue prominence; and
- defining a component of net assets or net liabilities as an element contradicts the idea that elements are the most basic building blocks of financial statements; elements may have subcategories, but elements cannot be subcategories of something else.



### **What does this difference mean for setting future standards?**

Since ownership contributions and ownership distributions are rare in the public sector, this difference is not expected to have significant impact for setting future standards. If the IPSASB determines that an item, transaction or other event is to be reflected as an ownership contribution or ownership distribution, PSAB will need to determine an accounting treatment that meets the financial reporting objective of providing information for accountability purposes.

### *Other resources and other obligations*

In paragraph 5.4 of its Conceptual Framework, the IPSASB states:

In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, 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.

The IPSASB's Conceptual Framework (paragraph 5.28) also states: “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.”

PSAB chose not to adopt these categories. The Board thought that having only assets and liabilities would lead to a better understanding of an entity's financial position by the public and its elected representatives.



### **What does this difference mean for setting future standards?**

Although the IPSASB identified the existence of other resources and other obligations in its Conceptual Framework, the IPSASB has not yet identified any transactions that would fall into these categories.

If the IPSASB decides to use “other resources” and “other obligations” in a standard that PSAB wishes to adapt, PSAB will need to determine an alternative accounting treatment that meets the financial reporting objective of providing accountability information. For example, PSAB may consider using the proposed “accumulated other” component of the net assets or net liabilities. The “accumulated other” component may be used to recognize certain revenue and expense that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective.

See PSAB's Exposure Draft, “[Financial Statement Presentation, Proposed Section PS 1202](#),” for more information on the “accumulated other” component of net assets or net liabilities.

### Asset and liability definitions<sup>3</sup>

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
An asset is a present economic resource controlled by an entity as a result of past events and from which future economic benefit is expected to be obtained. (Proposed paragraph 8.09 of Chapter 8)	An asset is:  A resource presently controlled by the entity as a result of a past event. (Paragraph 5.6 of the Conceptual Framework)
A liability is a present economic obligation of an entity to others as a result of past events, the settlement of which is expected to result in a future sacrifice of economic benefit. (Proposed paragraph 8.16 of Chapter 8)	A liability is:  A present obligation of the entity for an outflow of resources that results from a past event. (Paragraph 5.14 of the Conceptual Framework)

The key difference from PSAB's proposed asset and liability definitions and the IPSASB's is that PSAB's proposed definitions include "expectation" of receipt or sacrifice of future economic benefits.

Based on responses received to Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model," PSAB decided to keep "expectation" in the definitions. Removing "expectation", as proposed in Consultation Paper 3, would eliminate the redundancy with the general recognition criteria. Although theoretically correct, it could add a workload burden to preparers with little or no increase in the accountability provided by financial statements.



#### **What does this difference mean for setting future standards?**

The implication of this difference is that applying the IPSASB's definitions may result in more items meeting the definition of an asset or a liability. In setting future standards, PSAB will need to determine whether an asset or liability recognized in an IPSAS meets its own element definitions. If it does not, PSAB will need to determine if recognizing an item required to be recognized by the individual IPSAS under consideration meets the financial reporting objective of providing accountability information.

See also Recognition criteria.

<sup>3</sup> The IPSASB's conceptual framework includes guidance related to the asset and liability definitions. In the CPA Canada Public Sector Accounting (PSA) Handbook, this guidance is in Section PS 3200, *Liabilities*, and Section PS 3210, *Assets*. The review of this guidance is not part of the Concepts Underlying Financial Performance project. This document only compares the proposals in the Exposure Draft, "[The Conceptual Framework for Financial Reporting in the Public Sector](#)."



## Revenue and expense definitions

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
Revenue, including a gain, is an increase in assets or decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities. (Proposed paragraph 8.23 of Chapter 8)	Revenue is:  Increases in the net financial position of the entity, other than increases arising from ownership contributions. (Paragraph 5.29 of the Conceptual Framework)
An expense, including a loss, is a decrease in assets or increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities. (Proposed paragraph 8.25 of Chapter 8)	Expense is:  Decreases in the net financial position of the entity, other than decreases arising from ownership distributions. (Paragraph 5.30 of the Conceptual Framework)

The IPSASB's revenue and expense definitions only refer to increases or decreases in "net financial position." For added precision, PSAB thought that the revenue and expense definitions should also refer to changes in assets and liabilities that result in changes in net assets or net liabilities.



### What does this difference mean for setting future standards?

It is not expected that this difference will have an impact on setting future standards.

## Recognition criteria

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>An item, transaction or other event is recognized in the financial statements when:</p> <ul style="list-style-type: none"> <li>(a) the item, transaction or other event meets the definition of an element;</li> <li>(b) it is expected that the related future economic benefits related to the item will be obtained or sacrificed; and</li> <li>(c) the item, transaction or other event can be measured.</li> </ul> <p>(Proposed paragraph 9.05 of Chapter 9)</p>	<p>The recognition criteria are that:</p> <ul style="list-style-type: none"> <li>• An item satisfies the definition of an element; and</li> <li>• Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.</li> </ul> <p>(Paragraph 6.2 of the Conceptual Framework)</p>

Consistent with its asset and liability definitions, PSAB's existing and proposed general recognition criteria include an expectation threshold of realizing inflows or outflows associated with an item. The IPSASB's recognition criteria do not.

The IPSASB concluded that its approach (compared to the threshold approach) is more likely to result in the recognition of information that satisfies the qualitative characteristics. While their recognition criteria do not include a recognition threshold, the IPSASB's Conceptual Framework does discuss uncertainty in recognition. In the recognition chapter of its Conceptual Framework, paragraph 6.4 states:

Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

The Basis for Conclusions for Chapter 6 of the IPSASB's Conceptual Framework also discusses the relationship of uncertainty to both recognition and the element definitions.

PSAB believes that the expectation threshold should be retained because:

- it appears to be working well in the public sector in Canada;
- including items with a low expectation of realization reduces understandability and would not meet the accountability objective; and
- there is no compelling need or argument to change it.



**What does this difference mean for setting future standards?**

The implication of the IPSASB's recognition approach is that it may recognize more assets and liabilities than would be recognized under PSAB's approach. In setting future standards, PSAB will need to determine whether an asset or liability recognized by the IPSASB meets its own recognition criteria. If it does not, PSAB will then need to determine if recognizing an item recognized by the IPSASB meets the financial reporting objective of providing accountability information.

## Measurement attribute

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>Financial statements are prepared primarily by reflecting assets, liabilities, transactions and other events at their historical cost unless PSAB determines that another measurement attribute better serves the accountability objective. (Proposed paragraph 9.34 of Chapter 9)</p>	<p>It is not possible to identify a single measurement basis that best meets the measurement objective at a Conceptual Framework level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective. (Paragraph 7.5 of the Conceptual Framework)</p>



### What does this difference mean for setting future standards?

The difference in the measurement approach may lead to significant differences when developing future standards. For now, although the measurement approach of each standard setter is different, a review of the various IPSAS and PSAS reveals that many similar transactions can be accounted for using the same measurement attributes (e.g., tangible capital assets can be recorded at cost, financial instruments are recorded at fair value). There appears, however, to be greater use of the fair value measurement attribute in IPSAS as compared to the PSAS.

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