

Exposure Draft 149

Conceptual Framework



Accounting Standards Board



Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Overview

- Background
- Scope of CF
- Overview of chapters in CF
- Request for comment
 - general comment
 - specific matter for comment
- Next steps of the project

Background

- IPSASB issued its CF in October 2014
 - Board reviewed IPSASB CF to assess appropriateness for local environment
 - Results of review published in Research report
 - Board agreed to adopt CF in its entirety, and modify in some respects
- Developed ED 149 based on IPSASB's CF, modified for local issues
- ED 149 approved for issue in June 2016
- Comment deadline 17 February 2016

Purpose of CF

- Establishes concepts to be applied by the Board in developing GRAP
- Provides guidance for preparers of general purpose financial reports (GPFRs) of p/sector entities where no GRAP
- Supersedes existing Framework once approved by the Board



Scope of CF

- CF proposes a broader scope of financial reporting
- More comprehensive than that encompassed by F/S
- Applies to GPFRs and not only GPFSS
 - GPFRs = general purpose financial reports → encompass F/S but also provide financial and non-financial info
 - additional info enhances, complements and supplements F/S



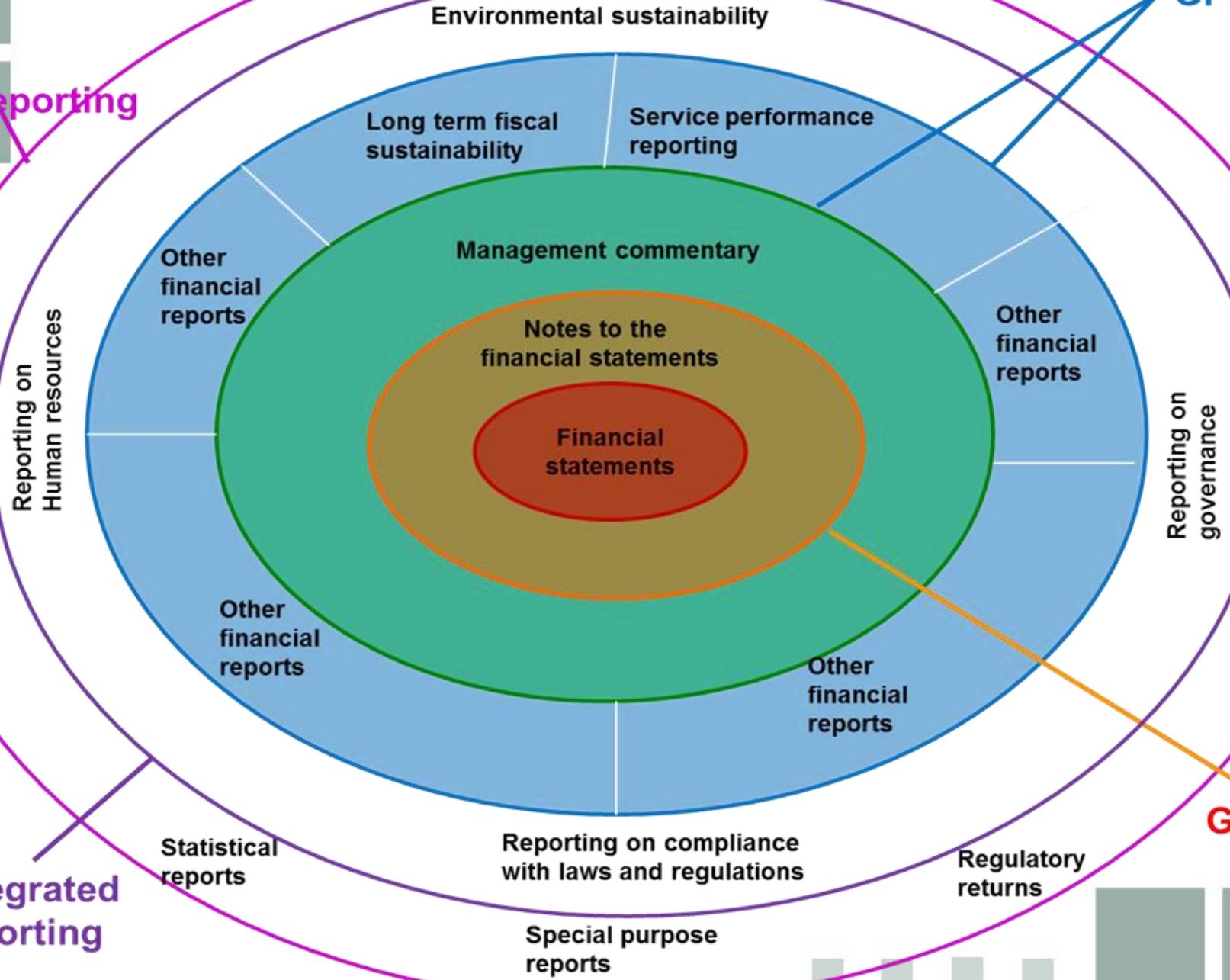
Scope of CF

- Examples of info provided by GPFRs
 - financial position, financial performance, cash flows (F/S)
 - comparison of actual and budget information (F/S)
 - service performance information
 - prospective financial and non-financial information and sustainability reporting
 - other explanatory information

Diagram 1 –
Delineation GPFR v GPFS

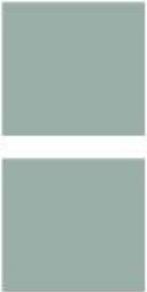
All reporting

GPFRs



Integrated reporting

GPFSs



Reasons for broader scope

- Entities already reporting this additional information but no set of principles set to guide preparation and presentation of information
- Framework that guides the preparation and presentation of this information needed

Reasons for broader scope

- Broader scope DOES NOT imply Board will issue reporting requirements
 - entities still need to adhere to reporting requirements set by other institutions
 - reporting requirements set out WHAT information should be included in GPFRs
 - CF concepts relating to GPFRs are not authoritative but merely serve as guide for preparing and presenting GPFRs
 - CF concepts tell us HOW information in GPFRs can be prepared

Overview of CF

Chapter in CF	Scope
Preface	
1. Role and authority of the Conceptual Framework	GPFRs
2. Objectives and users of General Purpose Financial Reporting	
3. Qualitative characteristics	
4. Reporting entity	
5. Elements in financial statements	GPFSSs
6. Recognition in financial statements	
7. Measurement of assets and liabilities in financial statements	
8. Presentation in General Purpose Financial Reports	GPFRs

Preface

- CF establishes concepts to be applied in:
 - developing GRAP for GPFSSs; and
 - presentation of GPFSSs reported outside F/S
- Highlights key characteristics of p/sector
 - volume and financial significance of non-exchange transactions
 - importance of approved budget
 - nature of p/sector programmes and longevity of the p/sector
 - nature and purpose of assets in p/sector
 - regulatory role of p/sector entities



Chapter 1: Role and authority of CF



Role and authority

- Chapter deals with GPFs, including F/S
- Establish concepts for general purpose financial reporting
- Does not establish authoritative requirements
- Does not override the requirements of Standards



GPRs

- Financial reports (F/R) intended to meet information needs of users unable to require the preparation of F/R tailored to meet their specific information needs
- Encompass F/S including their notes and info in other reports that enhance, complement and supplement F/S



GPFRs

- CF does not establish requirements for what info should be included in F/R
 - Sets out principles for how info can be prepared and presented



Applicability

- CF applies to financial reporting by p/sector entities
- Characteristics of p/sector entity are
 - responsible for delivery of **services** to benefit public and/or redistribute income and wealth;
 - mainly finance activities by means of taxes/transfers; and
 - do not have a primary objective to make profits



What's changed and how to apply proposed concepts?



Comparison

Proposed CF	Existing Framework	Impact
<p data-bbox="19 378 517 771">Reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, as it applies to the preparation and presentation of GPFRs.</p> <p data-bbox="19 835 483 1021">Also establishes broad characteristics of public sector entities that apply Standards of GRAP.</p>	<p data-bbox="556 378 1188 721">The purpose and status of the Framework is similar to that of the proposed CF, except that the Framework sets out concepts that underlie the preparation and presentation of financial statements only.</p>	<p data-bbox="1226 378 1893 521">Role and authority of the proposed CF is the same as in the existing Framework.</p> <p data-bbox="1226 578 1903 921">The Board agreed that the scope of the proposed CF should be broader to include financial and non-financial information that enhances, complements and supplements the financial statements.</p> <p data-bbox="1226 985 1874 1278">Characteristics of public sector entity will guide those entities that have no legislative requirement to apply Standards of GRAP, to consider whether they can apply the CF.</p>

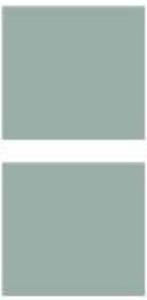


Chapter 2:

Objectives and users of general purpose financial reporting

Objectives of financial reporting and users

- Chapter deals with GPFRs, including F/S
- Provide useful information about the entity to users of GPFRs for:
 - accountability purposes; and
 - decision-making purposes
- Primary users of GPFRs are:
 - service recipients and their representatives
 - resource providers and their representatives



Info provided by GPFRs

- Financial position, financial performance and cash flows
- Budget information and compliance with legislation
- Service delivery achievements
- Prospective financial and non-financial information
- Explanatory information



What's changed and how to apply proposed concepts?

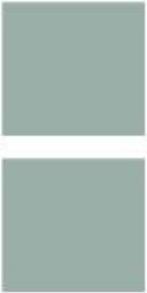


Comparison

Proposed CF	Existing Framework	Impact
<p>Sets the objectives of financial reporting as</p> <ul style="list-style-type: none">• accountability• decision-making <p>Makes a distinction between the primary users i.e. service recipients and resource providers and the other users.</p>	<p>The Framework is concerned with providing users with information that will be useful for accountability and assessing stewardship.</p> <p>Identifies the primary users of financial statements as “parliament, legislatures and other governing bodies, the public who receive the services and pay taxes and levies, present and potential funders and financial supporters, suppliers and creditors, rating agencies, and other governments, international agencies, resource providers, economists, financial analysts and employees”.</p>	<p>Accountability is a broader concept that encompasses stewardship because the public sector is characterised by services that are provided as a result of non-exchange transactions in a non-competitive environment.</p> <p>The new group of users in the CF grouping means the Board will be able to develop requirements for a more discrete group of users i.e. service recipients and resource providers as opposed to the wider group listed in the Framework.</p>

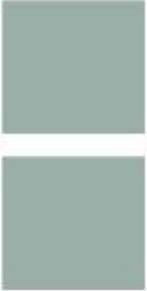


Chapter 3: Qualitative characteristics



QCs and pervasive constraints

- Chapter deals with GPFRs, including F/S
- Relevance, faithful representation, understandability, timeliness, verifiability and comparability
 - Board decided to keep materiality as an aspect of relevance rather than pervasive constraint
 - reliability superseded by faithful representation



QCs and pervasive constraints

- Constraints on info included in GPFRs includes
 - cost-benefit
 - balance between QCs



What's changed and how to apply proposed concepts?

Comparison

Proposed CF	Existing Framework	Impact
<p>Deals with QCs for GPFRs.</p> <p><u>QCs</u></p> <ul style="list-style-type: none"> • relevance • faithful representation • understandability • timeliness • verifiability • comparability <p><u>pervasive constraints</u></p> <ul style="list-style-type: none"> • cost-benefit • balance between QCs 	<p>Deals with QCs in relation to GPFSSs.</p> <p><u>QCs</u></p> <ul style="list-style-type: none"> • relevance • reliability • understandability • comparability <p><u>pervasive constraints</u></p> <ul style="list-style-type: none"> • cost-benefit • balance between QCs 	<p>Proposed QCs reflect current developments, and bring alignment with other standard-setters' frameworks.</p> <p><u>Faithful representation vs reliability</u></p> <ul style="list-style-type: none"> • components of reliability → faithful representation, substance over form, neutrality, prudence and completeness • faithful representation describes same concept as reliability <p><u>Timeliness</u></p> <ul style="list-style-type: none"> • timely reporting increases usefulness of GPFRs <p><u>Verifiability</u></p> <ul style="list-style-type: none"> • assures users that information in GPFRs is faithfully represented



Chapter 4: Reporting entity

Reporting entity

- Chapter deals with GPFRs, including F/S
- Concept used to identify when entity should prepare GPFRs
- Characteristics of reporting entity:
 - raises resources from, or on behalf of, constituents, and/or uses resources to undertake activities for benefit of, or on behalf of, those constituents; and
 - service recipients/resource providers dependent on entity's GPFRs for accountability or decision-making purposes



Reporting entity

- May have separate legal entity but not essential characteristic
- Group reporting entity → 1 or more separate entities presenting GPFs as if they are a single entity
 - not same as economic entity → economic entity only exists if one entity has control over another
 - boundary of group reporting determined using characteristics of reporting entity



What's changed and how to apply proposed concepts?

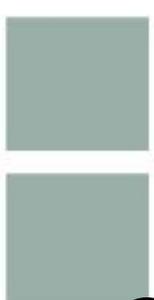


Comparison

Proposed CF	Existing Framework	Impact
<p>Concept used to describe boundary of reporting provides characteristics of entity that should prepare GPFRs.</p>	<p>Uses terms such as “entity” and “reporting entity” interchangeably without defining them and defines “economic entity” but in the context of F/S only.</p>	<p>Establishing such a concept in the CF is useful to the Board when:</p> <ul style="list-style-type: none">• there is no legislative requirement for entity to prepare F/S; or• in understanding if there is a reporting obligation. <p>It also clarifies “group reporting entity” is not same as “economic entity”.</p>



Chapter 5: Elements in financial statements



Elements

- Chapter only deals with F/S and not GPFRs
- Elements include:
 - assets
 - liabilities
 - revenue
 - expense
 - ownership contributions
 - ownership distributions



Assets

*“Resource presently controlled by entity
as a result of past event”*

Assets

- Resource

- item with SP or the ability to generate EB
- does not need to have physical form

- Presently controlled

- ability to use resource (or direct others) to derive benefit of SP or EB
- assess indicators of control :
 - legal ownership;
 - access to or the ability to limit access to resource;
 - means to ensure resources are used to achieve its objective; and
 - enforceable rights to SP or EB



What's changed and how to apply proposed concepts?

Comparison - Assets

Proposed CF	Existing Framework	Impact
<p>A resource presently controlled by the entity as a result of a past event.</p>	<p>A resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.</p>	<p>Proposed CF has more comprehensive guidance than that which is provided by the Framework, clarifies that:</p> <ul style="list-style-type: none">• Service potential and ability to generate economic benefits is embodied in the resource.• Notion of “flow” of FEB or SP removed as a resource exists because of the benefits embodied in it rather than the flow of those benefits to an entity.• Service potential and ability to generate economic benefits arise from the resource, rights to use resource, or ability to direct use of resource by others.• Resource must be presently controlled and provides clearer indicators of control.• Sovereign powers give rise to assets → asset arises when power is exercised and there’s right to receive resources



Liabilities

“A present obligation of an entity for an outflow of resources that results from a past event”

Liabilities

- Present obligation
 - legal obligation or non-legally binding obligation
 - little or no realistic alternative to avoid
- Outflow of resources
 - For it to be settled, there must be outflow of resources from entity
- Past event
 - past event or past tx is essential to determine whether an obligation is a present obligation

Liabilities

- Binding obligations
 - legal or non-legally binding obligations
 - obligation must be with external party
 - not essential to know identity before time of settlement
- Legal obligations
 - enforceable in law → no realistic alternative to avoid obligation
 - includes unconditionally enforceable claims

Liabilities

- Non-legally binding obligations
 - not enforceable in law
 - entity has indicated to other parties that it will accept certain responsibilities (past practice);
 - as a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
 - entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities
 - examples: economic coercion, political necessity



What's changed and how to apply proposed concepts?

Comparison - Liabilities

Proposed CF	Existing Framework	Impact
<p>A present obligation of the entity for an outflow of resources that results from a past event.</p>	<p>A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.</p>	<p>Proposed CF has more comprehensive guidance than that which is provided by the Framework, clarifies that:</p> <ul style="list-style-type: none">• Obligations that are not enforceable in law give rise to liabilities and distinguishes between legal obligations and non-legally binding obligations<ul style="list-style-type: none">→ economic coercion and political necessity may lead to a liability being recognised as a result of non-legally binding obligations.• Obligation must be to an external party, otherwise it may not be considered a liability.



Net financial position

- Not defined but description provided
- Difference between assets and liabilities
 - can be positive or negative residual amount



What's changed and how to apply proposed concepts?

Comparison – Net financial position

Proposed CF	Existing Framework	Impact
<p data-bbox="19 428 415 521">Net financial position described as:</p> <p data-bbox="19 585 415 978">The difference between assets and liabilities recognised in statement of financial position. Can be a positive or negative residual amount.</p>	<p data-bbox="454 428 917 471">Net asset defined as:</p> <p data-bbox="454 535 917 778">The residual interest of the owners in the assets of the entity after deducting all its liabilities.</p>	<p data-bbox="946 428 1903 578">Proposed CF does not define net assets but provides a description of net financial position because:</p> <ul data-bbox="946 599 1903 1420" style="list-style-type: none"> <li data-bbox="946 599 1903 1106">• For the IPSASB, net financial positions is described as difference between assets and liabilities after adding other resources and deducting other obligations recognised in the statement of financial position. → IPSASB acknowledges existence of other resources and other obligations which do not meet the definition of an element but may be recognised at a Standards-level to to achieve the objectives of financial reporting. <li data-bbox="946 1120 1903 1420">• Since the Board decided to remove references to other resources and other obligations in CF, in the local context net financial position is the same as net assets defined in the existing Framework except if other resources and other obligations are used



Revenue and expense

Revenue



“Increases in net financial position of the entity, other than increases arising from ownership contributions”

Expense

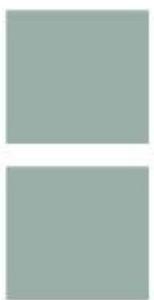
“Decreases in net financial position of the entity, other than decreases arising from ownership distributions”



What's changed and how to apply proposed concepts?

Comparison – Revenue and expenses

Proposed CF	Existing Framework	Impact
<p>Increases in the net financial position of the entity, other than increases arising from ownership contributions.</p>	<p>The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.</p>	<ul style="list-style-type: none"> • Consistent with proposed definitions to assets and liabilities, proposed definitions of revenue and expenses refer to the movements in the net financial position rather than the “flow” of economic benefits or service potential.
<p>Decreases in the net financial position of the entity, other than decreases arising from ownership distributions.</p>	<p>Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.</p>	<ul style="list-style-type: none"> • Revenue definition makes no reference to whether the increase in net financial position is “gross” or “net” as: <ul style="list-style-type: none"> → the Board believes such a consideration should be made at a Standards-level; and → gross or net approach will be appropriate in certain circumstances.



Ownership contributions



“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”



Ownership distributions



“Outflows of resources from an entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity”

Ownership contributions and distributions

- Important to distinguish inflows of resources from owners, and outflows of resources to owners in their capacity as from revenue and expenses
 - first identify who the owners are before making such a distinction



What's changed and how to apply proposed concepts?

Comparison – Ownership contributions

Proposed CF	Existing Framework	Impact
<p>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.</p>	<p>Future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets of the entity, which:</p> <ul style="list-style-type: none">(a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or(b) Can be sold, exchanged, transferred or redeemed.	<ul style="list-style-type: none">• Proposed CF has more comprehensive guidance than that which is provided by the Framework.

Comparison – Ownership distributions

Proposed CF	Existing Framework	Impact
<p>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.</p>	<p>Distributions to owners are either:</p> <ul style="list-style-type: none">(a) decreases in the owners' residual interests resulting from transfers to owners in their capacity as owners; or(b) dividends or similar distributions paid to owners as a return on capital.	<ul style="list-style-type: none">• Proposed CF has more comprehensive guidance than that which is provided by the Framework.



Chapter 6: Recognition in financial statements

Recognition

- Chapter only deals with F/S and not GPFRRs
- It identifies the criteria for an element to be recognised in financial statements, as follows:
 - item needs to meet the definition of an element; and
 - item can be measured in a way that achieves the QCs

Recognition uncertainties

- Recognition involves an assessment of uncertainty related to the existence and measurement of the element
- Existence uncertainty
 - item does not satisfy all essential features in the definition of the element
- Measurement uncertainty
 - measurement of item does not achieve QCs and constraints on information
 - includes uncertainty about amount of SP/ EB



Recognition uncertainties

- When the conditions that led to uncertainty change, recognition uncertainties need to be assessed at each reporting date

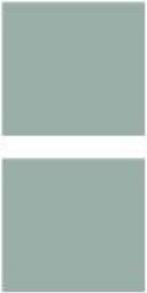
Disclosure and recognition

- Failure to recognise items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail.



Unit of account

- Represents the group of rights and/or obligations to which recognition and measurement requirements apply
 - selected for REAL after considering how recognition and measurement will apply
 - may have a different unit of account for recognition and measurement



Derecognition

- Use same criteria used at initial recognition when evaluating uncertainty about existence



What's changed and how to apply proposed concepts?

Comparison – Recognition criteria

Proposed CF	Existing Framework	Impact
<p>The recognition criteria are:</p> <ul style="list-style-type: none"> • an item satisfies the definition of an element; and • can be measured in a way that achieves the QC's and takes account of constraints on information included in GPFs. 	<p>An item that meets the definition of an element should be recognised if:</p> <ul style="list-style-type: none"> • it is probable that any future economic benefit or service potential associated with the item will flow to or from the entity; and • the item has a cost or value that can be measured reliably. 	<p><u>Issues with existing recognition criteria:</u></p> <ul style="list-style-type: none"> • Misinterpreted to mean that there must be a high expectation of an inflow or outflow of future benefits to justify recognition. • As a result, items with a lower likelihood were not recognised. <p><u>Benefits of proposed recognition criteria</u></p> <p>Proposed CF has more comprehensive guidance than that which is provided by the Framework:</p> <ul style="list-style-type: none"> • Recognition not reliant on the probability of the flow of economic benefits or service potential. • Degree of uncertainty that amount of economic benefits or service potential will not flow to/from the entity included in the measurement of the element.

Comparison – Recognition criteria

Proposed CF	Existing Framework	Impact
		<ul style="list-style-type: none">• Removal of probability of the flow in economic benefits or service potential results in more items being recognised.• Items with a low probability or remote likelihood of resulting in inflows or outflows are recognised.• Provide better information as recognised elements better meet the QCs of faithful representation, relevance and comparability.



Chapter 7: Measurement in financial statements



Measurement

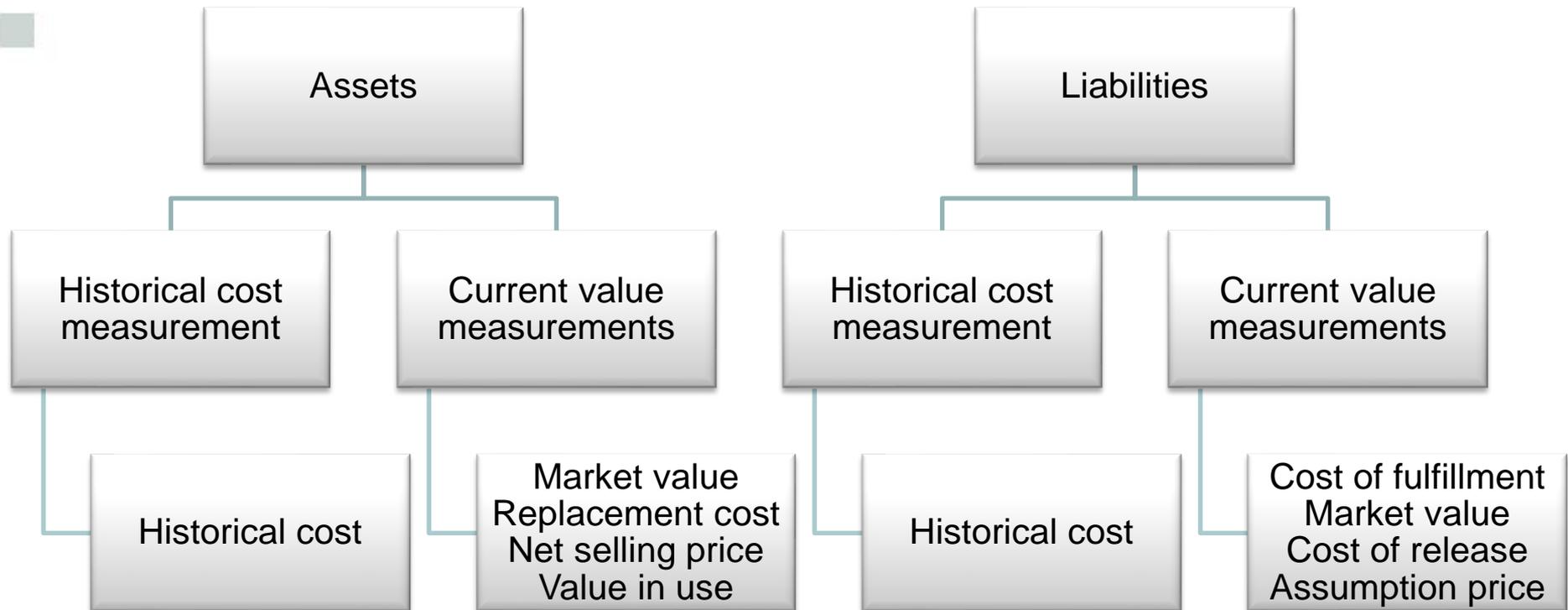
- Chapter only deals with F/S and not GPFRRs
- Identifies measurement concepts to be applied by
 - Board → selecting measurement bases for GRAP
 - preparers → selecting measurement bases for assets and liabilities if no requirement in GRAP
- Establishes a measurement objective



Measurement objective

- *“To select those measurement bases that most **fairly reflect the cost of services, operational capacity and financial capacity** of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes”*

Measurement bases





Selection of measurement basis

- Objective of CF is not to provide a single measurement basis
- CF identifies factors that should be considered in assessing which measurement basis should be used

Selection of measurement basis

- Measurement bases are classified by whether they are:
 - entry vs exit values
 - observable or unobservable in a market
 - entity or non-entity specific

Attributes of measurement bases

Entry and exit values	Observable and unobservable measures	Entity-specific and non-entity specific measures
<p><u>Entry values</u></p> <ul style="list-style-type: none"> • Measure reflects cost of purchase (assets) • Measure reflects amount at which obligation is received or assumed (liabilities) <p><u>Exit values</u></p> <ul style="list-style-type: none"> • Measure reflects either economic benefits from the immediate sale or amount to be derived from use and subsequent sale (assets) • Measure reflects amount required to fulfil obligation or to be released from obligation (liabilities) 	<p><u>Observable in market</u></p> <ul style="list-style-type: none"> • Measure is observable in open, active and orderly market → i.e. measure is understandable and verifiable <p><u>Unobservable in market</u></p> <ul style="list-style-type: none"> • Measure is less understandable and verifiable than observable measures 	<p><u>Entity specific</u></p> <ul style="list-style-type: none"> • Measure reflects entity's position not a hypothetical market → i.e. entity's own economic opportunities and risks <p><u>Non-entity specific</u></p> <ul style="list-style-type: none"> • Measure reflects general market opportunities and risks

Attributes of measurement bases - assets

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Replacement cost	Entry	Observable	Entity specific
Net selling price	Exit	Observable	Entity specific
Value in use	Exit	Unobservable	Entity specific

Attributes of measurement bases - liabilities

Measurement Basis	Entry or Exit	Observable or Unobservable in a Market	Entity or Non-entity Specific
Historical cost	Entry	Generally observable	Entity specific
Cost of fulfillment	Exit	Unobservable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Cost of release	Exit	Observable	Entity specific
Assumption price	Entry	Observable	Entity specific

Assessing measurement bases

- Each measurement base examined in the context of whether it
 - (a) provides information about cost of services, operational capacity, and financial capacity; and
 - (b) extent to which it provides information that meets the QCs.

Historical cost

Definition	Cost of services	Operational capacity	Financial capacity
<p>Consideration given to acquire or develop an asset, which is the cash or cash equivalent or the value of the other consideration given, at the time of its acquisition or development.</p> <p>Entry, generally observable, entity-specific value</p>	<p>Reflects amount of resources expended to acquire/develop assets consumed.</p> <p>Cost of services is reported based on past prices</p> <p>→ does not reflect cost of assets when consumed during reporting period</p>	<p><u>Exchange transaction</u> Reflects amount of resources available to provide services in future</p> <p><u>Non-exchange transaction</u> Transaction price does not reflect information about operational capacity.</p>	<p>Reflects value of assets that may be used as collateral.</p> <p>Does not reflect the amount that could be reinvested from sale of asset.</p>
QCs:	<ul style="list-style-type: none"> Faithful representation, verifiable, timeliness, understandable. Relevance, comparability achieved to lesser extent as price changes not reflected in historical cost. 		

Market value

Definition	Cost of services	Operational capacity	Financial capacity
<p>Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p> <p>Exit value e.g. assets held for trading</p> <p>Entry value e.g. specialised operational assets</p>	<p>Revenue from services measured in current terms; and consumption of asset will also be reflected at current terms.</p>	<p>Useful if it reflects value of service potential of asset (entry-based values)</p>	<p>Reflects amount receivable on sale of asset (exit-based values)</p>
<p>QCs:</p>	<ul style="list-style-type: none"> Faithful representation, relevance, verifiable, comparable and understandable (in open, active and orderly market) 		

Replacement cost

Definition	Cost of services	Operational capacity	Financial capacity
<p>The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.</p> <p>Entry value and entity-specific.</p>	<p>Cost of consuming asset = sacrifice of service potential incurred by that use.</p> <p>Cost of services reported in current terms, therefore consumption stated at value of asset at the date consumed.</p> <p>Facilitates comparison with taxes and revenue.</p>	<p>Provides information about the resources available to provide services in future periods.</p>	<p>Does not provide information about amount receivable upon sale of the asset.</p>
<p>QCs:</p>	<p>Calculation can be complex, and may affect faithful representation. May also affect understandability, timeliness, verifiability, and comparability (as an entity specific value, although may be comparable where same services provided).</p>		

Net selling price

Definition	Cost of services	Operational capacity	Financial capacity
<p>The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.</p> <p>Exit value and entity-specific.</p>	<p>Cannot quantify cost of provision of services.</p>	<p>Does not provide information about available service potential.</p>	<p>Provides information about value of an asset if it is to be sold.</p>
<p>QCs:</p>	<p>If measure is relevant, it achieves faithful representation, can be timely, verifiable, understandable as based on market information.</p>		

Value in use

Definition	Cost of services	Operational capacity	Financial capacity
<p>The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.</p> <p>Exit value and entity-specific.</p>	<p>Limited applicability and complexity makes use in costing services, and assessing operation and financial capacity irrelevant in most instances.</p>		
<p>QCs:</p>	<p>Complex basis, therefore reduces faithful representation, timeliness, comparability, understandability and verifiability.</p>		

Summary of assessment - assets

Measurement base	Applicability and suitability	Cost of services	Operational capacity	Financial capacity
Historical cost	<p>Straightforward to apply as transaction information is readily available.</p> <p>Useful for assets used in provision of services i.e. operational assets.</p>	✓	✓	✗
Market value	<p>Provides useful information as it fairly reflects value of asset to entity when markets are open, active and orderly.</p> <p>Exit-based values useful for assets held for trading e.g. financial instruments</p> <p>Entry-based values useful for specialised operational assets.</p>	<p>✓</p> <p>Entry-based</p>	<p>✓</p> <p>Entry-based</p>	<p>✓</p> <p>Exit-based</p>
Replacement cost	<p>Cost of replacing an asset's service potential rather than determining cost of acquiring an identical asset.</p> <p>Calculation may be complex and require subjective judgements.</p>	✓	✓	✗

Summary of assessment - assets

Measurement base	Applicability and suitability	Cost of services	Operational capacity	Financial capacity
Net selling price	<p>Unlike market value, it does not require an open, active and orderly market.</p> <p>Appropriate when most economic way of using the assets is to sell the asset.</p>	×	×	✓
Value in use	<p>Appropriate when it is less than replacement cost but greater than net selling price.</p> <p>Appropriate for assessment of impairments.</p> <p>Calculation can be complex and has limited applicability in the public sector as it is derived from expected cash flows and most assets held with objective to deliver services.</p>	×	×	×

Measurement bases - liabilities

Measurement base	Definition
Historical cost	The consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.
Cost of fulfillment	The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
Market value	The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.
Cost of release	The term used in the context of liabilities to refer to the same concept as "net selling price" in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation.
Assumption price	The term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

Summary of assessment - liabilities

Measurement base	Applicability and suitability
Historical cost	<p>Advantages and drawbacks for liabilities are the same as those discussed under assets.</p> <p>Appropriate where liabilities will be settled at stated terms.</p> <p>Not applicable for liabilities arising from non-exchange transactions and those with variable amounts.</p>
Cost of fulfillment	<p>Appropriate only when it is higher than cost of release and assumption price.</p>
Market value	<p>Advantages and drawbacks for liabilities are the same as those discussed under assets.</p> <p>Appropriate when liability is subject to changes in a specified rate, price or index in an open, active and orderly market.</p> <p>Not appropriate where transfer of liabilities is restricted i.e. obligations from non-exchange transactions.</p>

Summary of assessment - liabilities

Measurement base	Applicability and suitability
Cost of release	<p>Advantages and drawbacks for liabilities are the same as those discussed under “net selling price” for assets.</p> <p>Appropriate when the most resource-efficient course is to seek immediate release from an obligation i.e. cost of fulfillment is higher than cost of release.</p>
Assumption price	<p>Advantages and drawbacks for liabilities are the same as those discussed under “ replacement cost” for assets.</p> <p>Not relevant for non-exchange transactions.</p> <p>Appropriate when it is higher than cost of fulfillment and cost of release.</p>



What's changed and how to apply proposed concepts?

Comparison

Proposed CF	Existing Framework	Impact
<p>Selection based on whether it provides information about cost of services, operational capacity, and financial capacity; and extent to which it provides information that meets the QCs.</p> <p><u>Assets:</u></p> <ul style="list-style-type: none"> • historical cost • market value • replacement cost • net selling price • value in use <p><u>Liabilities:</u></p> <ul style="list-style-type: none"> • historical cost • cost of fulfillment • market value • cost of release • assumption price 	<p>Selection of an appropriate measurement basis based on the objective of financial statements and the QCs of financial information, the nature of assets or liabilities concerned, and circumstances involved.</p> <p>Different measurement bases are applied in varying combinations, and include the following:</p> <ul style="list-style-type: none"> • historical cost • current replacement cost • realisable (settlement) value • present value • market value • fair value 	<p>CF provides comprehensive and conceptually-based reasons as to why certain measurement bases would be appropriate.</p> <p>Board agreed it is confusing to refer to fair value and market because and IFRS 13 definition not suitable for p/sector. It is also not appropriate to define fair value differently from IASB.</p> <p>Present value is not included as it is not a measurement basis but a technique used to estimate measurements.</p>



Chapter 8: Presentation in GPFRs

Presentation

- Chapter deals with GPFRRs, including F/S
- Presentation is defined as
“ the selection, location and organisation of information in GPFRRs ”
- Presentation aims to provide information that supports the objectives and meets the QCs of financial reporting

Information selection

- Selection of information should reflect
 - what information is reported: (a) in F/S; and (b) in GPFRs outside the financial statements
- Information is selected for **display** or **disclosure** in GPFRs
 - display: communicates key messages, concise, presented prominently
 - disclosure: provides the basis, disaggregation of displayed info



Information selection

- Information selection decisions involve consideration of:
 - objectives of financial reporting;
 - QCs and constraints of info included in GPFRs; and
 - relevant economic or other phenomena about which information may be necessary

E.g. Information for display

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

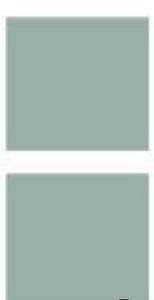
Figures in Rand	Note	2015	2014
Assets			
Non-current assets			
Property, plant and equipment	5	197 878	282 140
Current assets			
Receivables from exchange transactions	6	89 876	98 334
Cash and cash equivalents	7	907 998	2 736 405
		997 874	2 834 739
Total assets		1 195 752	3 116 879
Net assets and liabilities			
Liabilities			
Current liabilities			
Unused funds to be surrendered to the National Revenue Fund	8	-	1 249 514
Employee benefit provisions	9	319 051	250 059
Payables from exchange transactions	10	678 823	1 259 326
		997 874	2 758 899
Net assets			
Accumulated surplus	11	197 878	357 980
Total net assets and liabilities		1 195 752	3 116 879

E.g. Information for disclosure

	2015	2014
7. Cash and cash equivalents		
Cash and cash equivalents consist of the following:		
Financial assets		
Cash on hand	213	384
Cash at bank	74 637	998 859
Deposits held in investment accounts	833 147	1 737 162
	907 997	2 736 405
Refer to note 14 on financial instruments on how risk is managed in relation to the financial assets listed above.		
8. Unused funds to be surrendered to the National Revenue Fund		
Opening balance	(1 249 514)	(1 139 637)
Transfer payment received	(10 250 000)	(10 061 000)
Transfer payment utilised during the year	11 499 514	9 951 123
Closing balance	0	(1 249 514)
In accordance with section 53(3) of the PFMA the unused transfer payment cannot be retained without prior written approval from the National Treasury.		

Information location

- Information location decisions focus on the allocation of
 - information between different reports; and
 - information within a report.
- Impacts contribution to achievement of objectives of financial reporting and QCs
- Can affect users' interpretation of information as well as its comparability



Information location

- Information location decisions involve consideration of:
 - nature of the information
 - jurisdiction-specific factors ie. legislative requirements
 - linkages between information

Information organisation

- Information organisation addresses the arrangement, grouping and ordering of information, which includes decisions about:
 - how information is arranged within a GPFR; and
 - the overall structure of a GPFR.
- Can affect the interpretation by users

Information organisation

- Takes into account
 - important relationships between information and whether it is for display or disclosure
 - relationships include: enhancement, similarity and shared purpose
 - relationships may exist between information in different GPFRs, components within a GPFR, and parts of a single component.

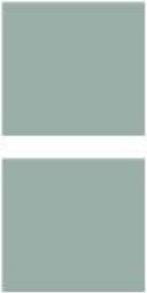


Information organisation

- Information organisation decisions
 - ensure key messages are understandable
 - identifies important relationships
 - give appropriate prominence to information
 - facilitate comparisons



What's changed and how to apply proposed concepts?



Comparison

Proposed CF	Existing Framework	Impact
<p>Presentation is the overarching term used for the selection, location and organisation of information, and display and disclosure are the more detailed terms describing the location of information within a GPFR.</p>	<p>The Framework does not deal with presentation.</p> <p>While the Framework does not deal with presentation, however the terms “presentation and disclosure” are used throughout the Standards.</p>	<p>CF provides considerations that are useful when making presentation decisions i.e.:</p> <ul style="list-style-type: none">• what information should be presented (selection);• where should the information be located (location); and• how the information should be organised (organisation). <p>Presentation in the existing Framework can be seen to refer to the same concept as “display” while disclosure is the same as “disclosure” in the proposed CF.</p>



Request for comment



Request for comment

- General matters
 - Do you support the ED in general?
- Specific matters for comment
 - Do you agree with the proposal to broaden the scope of the proposed CF to include GPFRs rather than GPFSs?
 - Do you agree with the proposal to not classify materiality as a pervasive constraint?



Request for comment

- Do you agree with proposal to not include discussion on other resources and other obligations?
- Do you agree with the proposal to add guidance on the unit of account in the proposed CF?



Next steps of the project



Next steps

- Stakeholder consultation until 17 Feb 2017
- Analysis of comment and approval of final CF in Q2 of 2017
 - Effective date will be considered
 - Final CF will supersede existing Framework
- Consequential amendments to Standards
 - to be considered in separate project guided by IPSASB's amendments



Questions?



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Stakeholder outreach and communication



Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Social media
- Handbook

Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

Website

- Overview of changes made to Standards with effect from 1 April 2016.
- Three set of Standards:
 - Those entities with a December year end
 - The Standards applicable for the current year
 - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



THANK YOU





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