International Financial Reporting Standards

Conceptual Framework
3rd December 2014
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Before we start…

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• To ask a question, type into the designated text box on your screen and click submit

• A recording of the webcast will be available after the presentation at http://go.ifrs.org/Conceptual-Framework

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Session overview

- Background
- Measurement
- Presentation and Disclosure
- Elements
- Recognition and Derecognition
- Reporting Entity
- Objective and Qualitative Characteristics
- Timeline and further information
Background

• Why?
  – Existing *Conceptual Framework* has helped developing, revising and understanding IFRSs. However, some areas were missing, unclear or out of date

• Agenda Consultation
  – Priority project

• Scope of the *Conceptual Framework* project
  – Focus on problems in the real world
  – Update, improve and fill in gaps
  – No fundamental rethink but resuming previous work
Background

• Purpose
  – The new *Conceptual Framework* will provide a coherent basis for developing future Standards
  – It will help other parties to understand and interpret Standards and develop accounting policies
  – It will not have an immediate effect on existing Standards
## Background

### Conceptual Framework timeline

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<tbody>
<tr>
<td>Objective &amp; QCs</td>
<td>DP</td>
<td>ED</td>
<td>Objective &amp; QCs</td>
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<tr>
<td>Elements</td>
<td>Discussions</td>
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<td>Elements</td>
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<td>Measurement</td>
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<td>Recognition</td>
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**Joint with FASB**

- IASC
- IASB only

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• Proposed mixed measurement approach
• Discussed how Qualitative Characteristics affect measurement
• Detailed discussion of how particular types of assets and liabilities contribute to future cash flows

• Insufficiently developed
• Too much Standards-level detail

• Describes different measurement bases and information they provide
• Describes factors to consider in selecting a measurement basis
Measurement
Measurement bases and techniques

Discussion Paper

Bases
• Cost-based measurements
• Current market prices
• Other cash flow-based measurements

Exposure Draft

Bases
• Historical cost
• Current value
  • Fair value
  • Fulfilment value/value in use

Cash flow-based measurement techniques
Consideration of objective of financial reporting, the qualitative characteristics of useful information and the cost constraint is likely to result in the selection of different measurement bases for different assets and liabilities.
Measurement
Factors to consider when selecting a measurement basis

Relevance

• Information produced in both statement of financial position and statement(s) of financial performance
• How an asset or liability contributes to future cash flows
  – depends in part on business activities being conducted
• Characteristics of asset or liability
  – eg nature or extent of variability in cash flows, sensitivity to risks etc
• Level of uncertainty
  – but sometimes a measurement with a high degree of uncertainty is the only relevant measurement
Measurement
Factors to consider when selecting a measurement basis

Faithful representation

- Not enough on its own - information must also be relevant
- Consider how best to portray link between items

Others

- Understandability
  - Using new or different measurement bases could reduce understandability
  - Avoid unnecessary changes in measurement bases
- Cost constraint
Presentation and Disclosure
### Discussion Paper

- Requires profit or loss as a total or subtotal
- Describe the types of items that could be included in OCI

### Exposure Draft

- Including income and expense in profit or loss is classification
- Describes profit or loss as the primary, but not the only, source of information about an entity’s performance
- Includes rebuttable presumption that income and expenses are included in profit or loss
- Requires profit or loss as a total or subtotal

- The IASB could include income and expense in OCI only in limited circumstances:
  - Only when that enhances relevance of profit or loss for the period; and
  - Only income and expense from changes in current measures of assets and liabilities
## Discussion Paper

| Recycle in some or all cases |

## Exposure Draft

| Rebuttable presumption that income and expense included in OCI in one period are subsequently included in profit or loss |
| If no meaningful basis for identifying such a subsequent period → an indication that income and expense should not be included in OCI |
Presentation and Disclosure
Other aspects

### Exposure Draft
- No major changes to DP
- Objective of financial statements
- Concepts for classification, aggregation and offsetting
- Information in the notes
- Communication principles
- No definition of ‘primary financial statements’

### Disclosure Initiative
- Portfolio of projects aimed at improving the effectiveness of disclosures:
  - Principles of Disclosure
  - Review of existing Standards
  - Materiality
  - Amendments to IAS 1 *Presentation of Financial Statements*
  - Amendments to IAS 7 *Statement of Cash Flows*: reconciliation of liabilities from financing activities
International Financial Reporting Standards

Elements
## Elements

### Definitions of assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>Existing definitions</th>
<th>Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset (of an entity)</strong></td>
<td>A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.</td>
<td>A present economic resource controlled by the entity as a result of past events.</td>
</tr>
<tr>
<td><strong>Liability (of an entity)</strong></td>
<td>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.</td>
<td>A present obligation of the entity to transfer an economic resource as a result of past events.</td>
</tr>
<tr>
<td><strong>Economic resource</strong></td>
<td>Not defined</td>
<td>A right that is capable of producing economic benefits.</td>
</tr>
</tbody>
</table>
Elements
Definition of equity

• Retain existing definition of equity as a residual interest
• Use conceptual definition of a liability to show obligations to transfer economic resources
• Use expanded statement of changes in equity to show wealth transfers between equity holders

• No amendments to existing definitions at this time
• No detailed guidance on how to distinguish liabilities from equity instruments
• Explore how to distinguish liabilities from equity, including whether to amend the definitions of liability and equity, in a research project
Present obligation

<table>
<thead>
<tr>
<th>Present obligation to transfer an economic resource</th>
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<tbody>
<tr>
<td>No practical ability to avoid the transfer</td>
</tr>
<tr>
<td>AND</td>
</tr>
<tr>
<td>The amount is determined by reference to past actions or benefits received</td>
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Consider in Standards
Examples that have proved problematic:
- Constructive obligations – because of its customary practices, published policies or specific statements, an entity has no practical ability to avoid a transfer of economic resources.
- An entity has the right to take an action that will avoid a transfer of economic resources, but has no practical ability to take that action.

Proposed approach: Entity might have no practical ability to avoid a transfer if, eg:
- Alternative courses of action would cause significant business disruption or have economic consequences significantly more adverse than the transfer itself.
- The transfer could be avoided only by liquidating the entity or ceasing trading.
## Recognition and Derecognition

<table>
<thead>
<tr>
<th>Existing criteria</th>
<th>Exposure Draft</th>
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<tbody>
<tr>
<td><strong>Recognition</strong></td>
<td></td>
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<tr>
<td>• Meet the definition of an asset or a liability</td>
<td>• Meet the definition of an asset or a liability</td>
</tr>
<tr>
<td>• Probable that any future economic benefit associated with an asset or a liability will flow to the entity</td>
<td>• Include factors to consider in deciding whether to recognise an asset or a liability:</td>
</tr>
<tr>
<td>• The asset or liability has a cost or value that can be measured reliably</td>
<td>• relevance</td>
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<tr>
<td></td>
<td>• faithful representation and cost/benefit</td>
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<tr>
<td><strong>Derecognition</strong></td>
<td>• Describe and discuss full derecognition, partial derecognition and continued recognition</td>
</tr>
<tr>
<td>• None</td>
<td></td>
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• Reporting Entity chapter based on 2010 ED and comments received on that ED

• A reporting entity is an entity that chooses, or is required, to present general purpose financial statements
• Generally, consolidated financial statements are more likely than unconsolidated financial statements to provide information that is useful to more users.

• When consolidated financial statements are required:
  – An entity may also choose, or be required, to prepare unconsolidated financial statements.
  – The unconsolidated financial statements should disclose how users may obtain consolidated financial statements.

• The Conceptual Framework should not specify which combinations of entities could prepare combined financial statements.
Objective and Qualitative Characteristics
Objective and Qualitative Characteristics

DP
- No intention of fundamentally reconsidering finalised chapters on objective of financial reporting and qualitative characteristics

Comment letters
- Some concerns raised about treatment of stewardship, primary users, reliability, prudence and substance over form

ED
- Limited changes proposed
## Objective

<table>
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<tr>
<th>Stewardship</th>
<th>Primary users of financial statements</th>
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| • Increase the prominence of stewardship within the overall objective | • Confirm focus on existing and potential investors, lenders and other creditors  
  – Includes long-term investors |
## Qualitative Characteristics

| Reliability | • Retain faithful representation as a qualitative characteristic  
|             | • However, if an estimate is too uncertain, it might not provide relevant information |
| Prudence    | • Reintroduce reference to prudence  
|             | • Describe prudence as caution under conditions of uncertainty  
|             | • No overstatement or understatement of assets, liabilities, income or expenses (i.e., neutral) |
| Other       | • Reintroduce explicit reference to substance over form within description of faithful representation |
Timeline and further information
Timeline

July 2013
Discussion Paper

Q1 2015
Exposure Draft

2016
Revised
Conceptual Framework
Further information

• Conceptual Framework website
  http://go.ifrs.org/Conceptual-Framework

• Summary of tentative decisions

• Register for email alerts
  http://eifrs.ifrs.org/eifrs/Register
Questions?