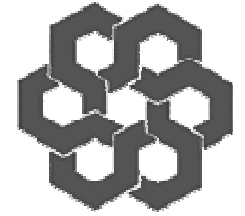

This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

INFORMATION FOR OBSERVERS

SAC Meeting: February 2006, London
Project: Conceptual Framework
(Agenda Paper 4D)



**International Accounting
Standards Board**



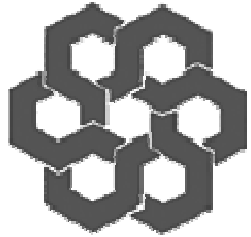
Conceptual Framework

SAC Meeting

February 2006



**Financial Accounting
Standards Board**

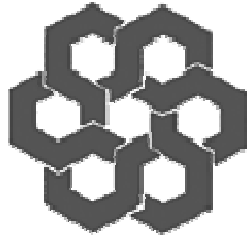


Disclaimer



The views expressed in this presentation are our own and do not represent positions of the International Accounting Standards Board or the Financial Accounting Standards Board.

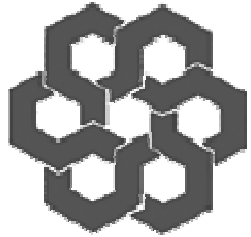
Positions of the IASB and FASB are arrived at only after their respective and extensive due process procedures and deliberations.



Overview of Session



- Introduction
- Overview of project
- Progress to date
 - Objectives of Financial Reporting
 - Qualitative Characteristics
 - Elements, Recognition and Measurement Attributes
 - Reporting entity
- Next steps



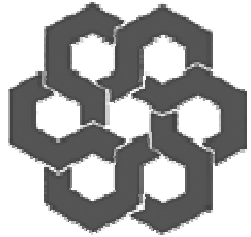
Introduction



Purpose of Framework

- Tool – standard setters & preparers
- Sets boundaries
- Promotes high quality decisions

“Accounting’s Constitution”



Project Overview

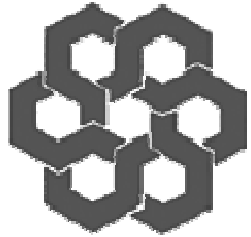


Project objectives:

- develop a common conceptual framework
- by converging and improving upon the existing frameworks
- provide sound foundation for development of common accounting standards

The project will:

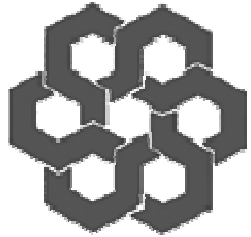
- focus on 'cross-cutting issues'
- begin with concepts applicable to business entities in the private (non-governmental) sector



Project phases



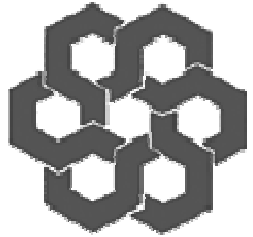
- A: Objectives and qualitative characteristics
- B: Elements, recognition/derecognition and measurement attributes
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- D: Reporting entity
- E: Presentation and disclosure
- F: Framework purpose and status
- G: Applicability to not-for-profit sector
- H: Entire framework



Project phases



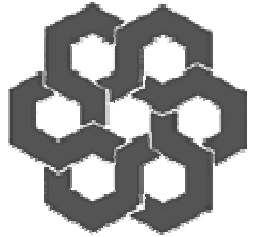
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Objectives of Financial Reporting



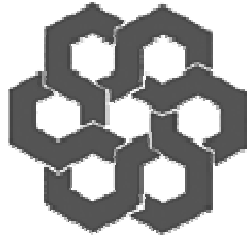
- General purpose financial reports
- Information useful to a wide range of users
 - External
 - Present & potential
 - Investors & creditors
 - Others



Objectives of Financial Reporting



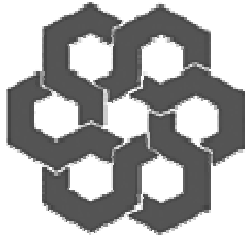
- To assist users in making rational economic decisions
 - Investment, credit & similar resource allocations
- Provide information useful in assessing:
 - entity's net cash flow prospects
 - entity's economic resources, claims to those resources, and effects of events that change those resources and claims
 - management's stewardship and accountability – but “stewardship report” is **not** an objective



Project phases



-
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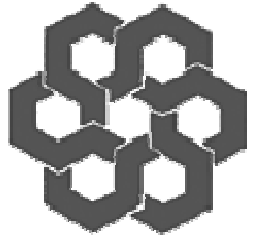
Qualitative Characteristics



- They are all good things
 - (Good to have in your financial reporting)
- Relevance
- Reliability
- Comparability, understandability

Constraints

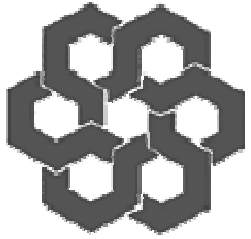
- Benefits that justify costs, materiality



Qualitative Characteristics



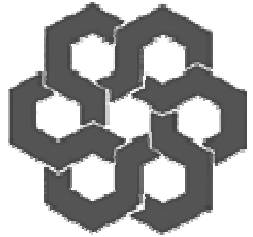
- *Relevance*
 - Predictive value
 - Confirmatory value (~~feedback~~)
 - Timeliness



Qualitative Characteristics



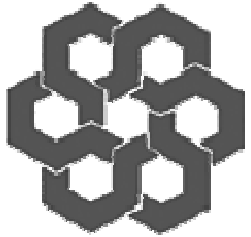
- ~~Reliability~~ *Faithful representation*
 - Does the item “reflect” the real world?
 - How well does it do that? *Sufficiently?*
 - Reporting effects in right period?
- Neutrality
 - Is the information free from bias?
 - Not conservative or prudent but balanced view?
- Verifiability
 - Would others get the same result?
- Completeness
 - Is everything there?



Qualitative Characteristics



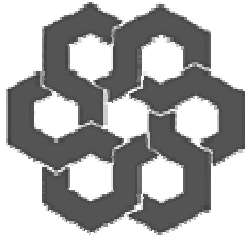
- *Comparability*
 - Identify similarities & differences
 - Consistency - similar treatment over time & across entities
 - Comparability – between transactions within entity, across entities & over time



Qualitative Characteristics



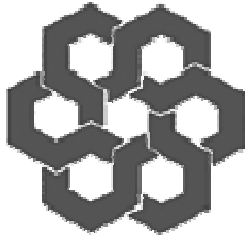
- *Understandability*
 - Can the user figure things out?
 - Improve by:
 - Aggregating; classifying; characterizing
 - Presenting in clear & concise manner
 - Not exclude if too complex or difficult



Constraints



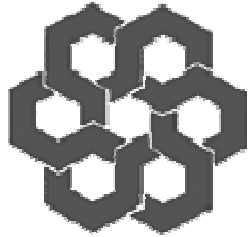
- *Cost-Benefit*
 - Do the collective benefits justify the costs to preparers and users?
- *Materiality*
 - Relevance & faithful representation
 - Screen or filter



Qualitative Characteristics: A Process?



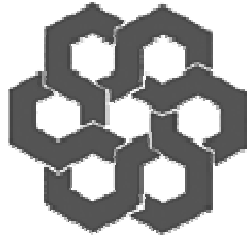
- Trade-offs and trumping have been less than successful in resolving conflicts
- Better to view consideration of the QCs as *steps in a process*



Project phases



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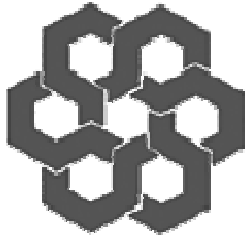


Phase B



Topics include:

- Element definitions
 - Assets
 - Liabilities and equity
- Assets and liabilities with uncertainties
- Recognition and derecognition
- Measurement attributes



Elements



Asset definition – current proposals

- Focus on existence
 - Present right
 - Other privilege
 - To a resource
 - Capable of generating economic benefits
- No need to specify
 - Past event
 - Control
 - Probability

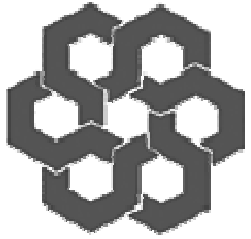


Elements



Liability definition – current proposals

- Derived from asset definition
- Focus on existence
 - Present obligation
 - Compel potential outflows
 - Or other sacrifices of economic benefits

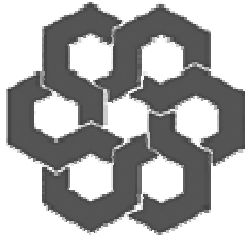


Elements



Assets and Liabilities with Uncertainties

- Role of probability and uncertainty
 - Distinguish between existence of item and uncertainty of item's future cash flows
 - Focus on unconditional and conditional rights
 - Focus on current economic benefits of an asset or current amount to settle a liability
- Evaluating comments received

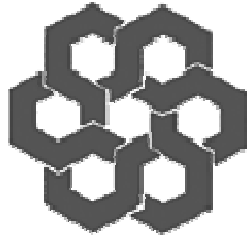


Phase B



Topics include:

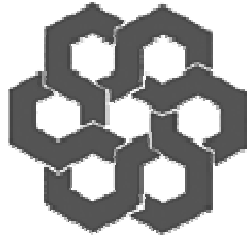
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Project phases



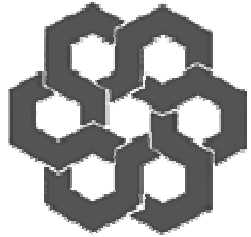
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Reporting Entity: Tentative Decisions



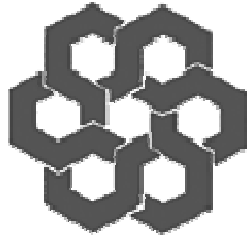
- The reporting entity concept should:
 - determine the boundaries for individual entity and groups of entities
 - not be limited to entities with external users who are unable to demand the information they require
- Staff will further research whether:
 - *parent-only entity* is a reporting entity
 - boundaries of a group of entities should be based on a broader concept of control, for example, a concept that might encompass entities under common control



Project phases



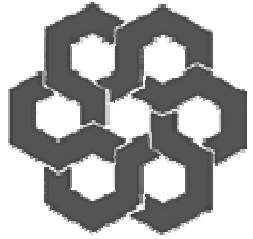
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Next Steps



- 5 year plan
- Issue comment papers
 - Phase A in Q3'06
 - Complete framework
- Conducting other phases in parallel
 - Phase B: Elements
 - Phase C: Measurement
 - Phase D: Reporting entity
- Post to web – when available



Conceptual Framework



Questions ?