General contributions—both papers

- Informative reviews of significant literature on conceptual alternatives for financial reporting

- The “clean surplus” relationship is important
  - Essentially that over an entity’s life cash flows (other than from providers of capital) and comprehensive income (accruals) should be equal

- That guidance on the choice of measurement method, especially historical cost versus current value (not just fair value) can be improved

- That measurement rests, in part, on business plans, and hence a business model
  - ‘business activities’ are used in CF rather than ‘business model’
Contributions—gaps paper Barker and Texeira

- That asset and liability changes leading to income and expenses are sometimes not one directional, as explained in the CF
  - assets and liabilities recognition is sometimes related to recognition of income and expenses
    - “reconciled back to it”
- Some important concepts remain, or are significantly developed, at the standards level
- Guidance on measurement method choice is incomplete
- Guidance on unit of account is incomplete
- Advocate for more emphasis on transactions
Contributions—articulation paper

• Useful history of alternate ways to decompose profit
• Clean surplus relationship does not hold for profit or loss
• Distinguishing allocation of performance elements between profit or loss and other comprehensive income (OCI) is incomplete
• Paper provides some useful analysis of these issues
• Advocate for the use of deprival values
Board’s view (versus myth one)—statement of financial position emphasis

- Assets and liabilities are the basic conceptual building blocks of the Conceptual Framework:
  - income and expenses are derived from changes in assets and liabilities
  - Because this approach is the best way to capture income and expenses and financial performance
  - Assets and liabilities as basic elements do not imply a statement of financial position emphasis
Board’s view (versus myth two)—current values are optimal for balance sheet

• Assets and liabilities are the basic conceptual elements of the conceptual framework
  – CF allows for a mixed measurement approach
  – Based on relevance and faithful representation
  – assets and liabilities as basic elements do not imply that the assets and liabilities are best captured by measuring using current values (not just fair values) .
IFRS clarifications

• The sum of profit or loss and OCI (also known as comprehensive income) satisfies clean surplus

• Forecasting future cash flows, abnormal earnings, or ROE should always involve more than simply extrapolating from current profit or loss, comprehensive income, abnormal earnings, or cash flows.
  – Financial performance should be assessed broadly and selecting inputs to valuation models can use all information provided in all statements
Conceptual Framework—the big (ger) changes for future standard-setting

- Recognition & derecognition
- Uncertain liabilities
- Role of prudence and stewardship
- Measurement
- Use of OCI
Guidance on selecting a measurement basis

- Information in both the statement of financial position and the statement(s) of financial performance

- Relevance
  - Characteristics of the asset or liability
  - Contribution to future cash flows

- Faithful representation
  - Measurement inconsistency (‘accounting mismatch’)
  - Measurement uncertainty

- Enhancing qualitative characteristics and cost constraint
## Guidance on selecting a measurement basis

<table>
<thead>
<tr>
<th>Elaborate on Relevance</th>
<th>Historical cost</th>
<th>Current value</th>
</tr>
</thead>
</table>
| Asset characteristics: | Stable CF and stable value | • Highly variable CF  
• High sensitivity to value changes |
| • sensitivity of value to market factors?  
• CF highly variable? | | |
| How asset is used: | Produce CF in combination/ measure cost of asset consumption | Produce CF directly |
| • Produce CF in combination or directly? | | |
| Then consider *faithful representation* | | |
| • accounting mismatch?  
• measurement uncertainty? | | |
| Cost-benefit concerns? | | |
| Enhancing characteristics acceptable? | | |
Profit or loss and OCI in CF

**Profit or loss**
- Primary source of information about performance
- Default location for income and expenses—Historical cost-based measurements here

**Other comprehensive income**
- Exceptional circumstances
- Only some changes in current values of assets and liabilities

**Classification into profit or loss and OCI and recycling**
- Relevance
- Faithful representation

Only the Board can make decisions on OCI and recycling
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