

STAFF PAPER

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Project	Conceptual Framework		
Paper topic	Recognition and derecognition Cover Paper		
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Background

1. This paper provides background information on AP 10D(a) *Draft discussion paper: Recognition and derecognition*.
2. AP 10D(a) is a draft of the Recognition and derecognition section of the Conceptual Framework discussion paper (DP). It is a redraft of AP 3E *Draft discussion paper: Recognition and derecognition* from the February 2013 IASB meeting that has been updated to reflect comments made at that meeting.
3. This paper:
 - (a) Summarises the main changes made to AP3E; and
 - (b) Sets out questions for the IASB.

Main changes

4. The main changes made to AP3A are as follows:
 - (a) The discussion of uncertainty and of control has been moved into the section of the draft DP dealing with the definition of elements (see agenda paper 10B(a));

- (b) In relation to reliability:
- (i) In the section on faithful representation, paragraphs 15-19 provide a revised and expanded discussion of the link between the former concept of reliability and the concept of faithful representation.
 - (ii) The February draft concluded that an inability to provide a faithful representation should be a separate factor that might cause the IASB to conclude, in particular cases, that recognition is not appropriate (alongside lack of relevance and cost-benefit). However, paragraph 18 now concludes that if recognising an asset or liability would provide information that is relevant, that information could never fail to represent faithfully that asset or liability and changes in that asset or liability. Thus, there is no need for the recognition criteria to refer to faithful representation.
- (c) Paragraph 9(a) now makes a more explicit link between the existing recognition criterion referring to reliability and the proposed recognition criteria referring to relevance:
- (i) Paragraph 9(a) continues to note, in line with paragraph QC16 of the Conceptual Framework, that an estimate will not be particularly relevant if the level of uncertainty in an estimate is sufficiently large. In effect, this states that information is not relevant if users cannot depend on it to give a faithful representation.
 - (ii) Before the revision of the conceptual Framework in 2010, paragraph 31 stated: ‘Information has the quality of reliability when it is free from material error and bias and **can be depended upon by users** to represent faithfully that which it either purports to represent or could reasonably be expected to represent.’ [emphasis added]
 - (iii) The staff believe it would be helpful to bring out more explicitly the notion that information is not relevant if users cannot depend on it to give a faithful representation. Thus, the staff have added in the second sentence of paragraph 9(a) a statement that an estimate would not be relevant ‘if users cannot **depend on (rely on)** that estimate to represent

faithfully what it purports to represent, even with appropriate disclosure'. [emphasis added]

- (iv) The staff used both phrases ('depend on' and 'rely on') to echo both the language in former paragraph 31 and the former qualitative characteristic of reliability.
- (d) The staff have expanded this discussion in paragraph 9(d).
- (e) Derecognition examples A and B (after paragraphs 36 and 37) now note that the first step in a control approach is to assess whether the transferee holds the asset as principal, or as agent for the transferor. If the transferee holds the asset as agent, the control approach and the risks and rewards approach lead to the same result.
- (f) Paragraphs 38-41 are new. They explain the sources of concern in decisions about derecognition and discuss other approaches.

Questions

Questions

1 Does the IASB agree that there is no need for a separate recognition criterion that considers whether an entity can provide a sufficiently faithful representation of the asset (or liability)?

2 Do you have any comments on any other aspects of this section?

3 Do you have any comments on the proposed questions for respondents to the DP (paragraphs 47 and 48)?