

International Financial Reporting Standards



Conceptual Framework

Advisory Council
10-11 June 2013

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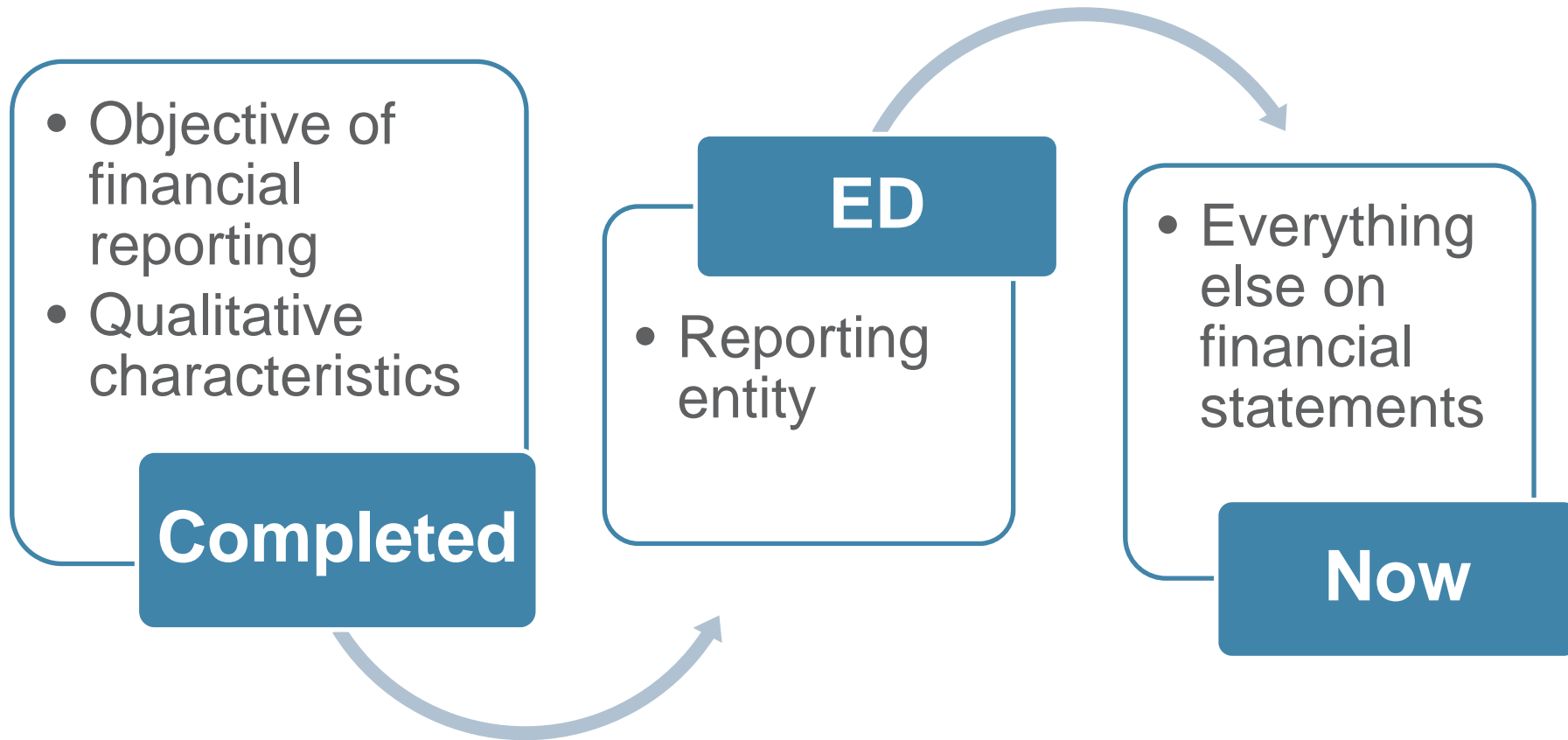
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- Why a *Conceptual Framework* project?
- Status
 - Work completed: Objective and Qualitative Characteristics
 - Current work
 - Timetable
- Highlight some issues considered in the DP
 - Measurement
 - Other comprehensive income (OCI)
 - Disclosures
 - Others

Why?

- Previous joint project with FASB suspended in 2010
- Agenda consultation
 - Priority project
- Purpose of *Conceptual Framework* project
 - Not a fundamental rethink
 - Update, improve and fill in gaps
 - Focus on problems in standard-setting



Objective and qualitative characteristics

- Not intended to revisit, except for consequential amendments
- Completed in 2010
 - DP: July 2006
 - ED: May 2008
- Joint work with the US FASB

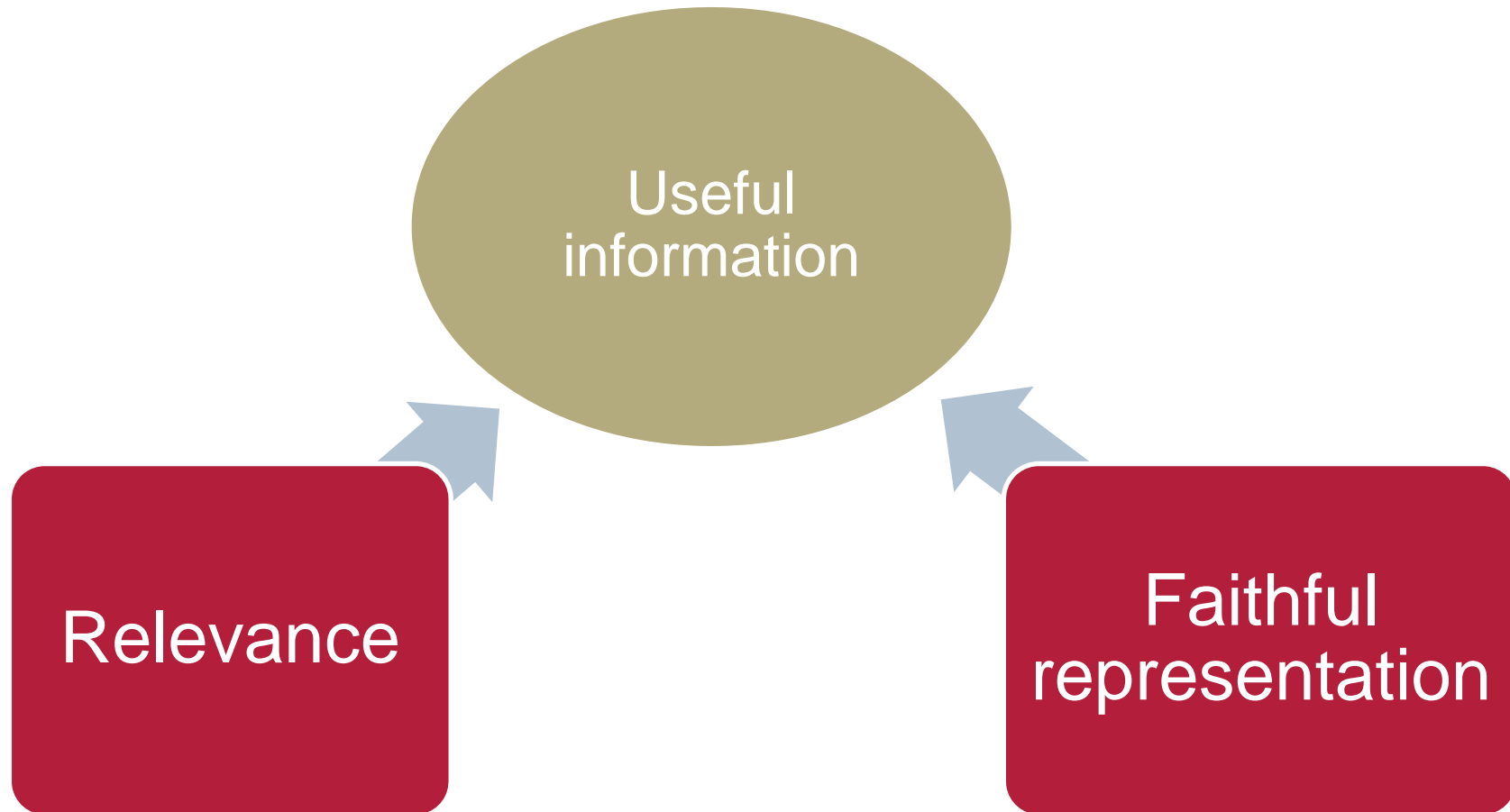
Objective of financial reporting

To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. (OB 2)

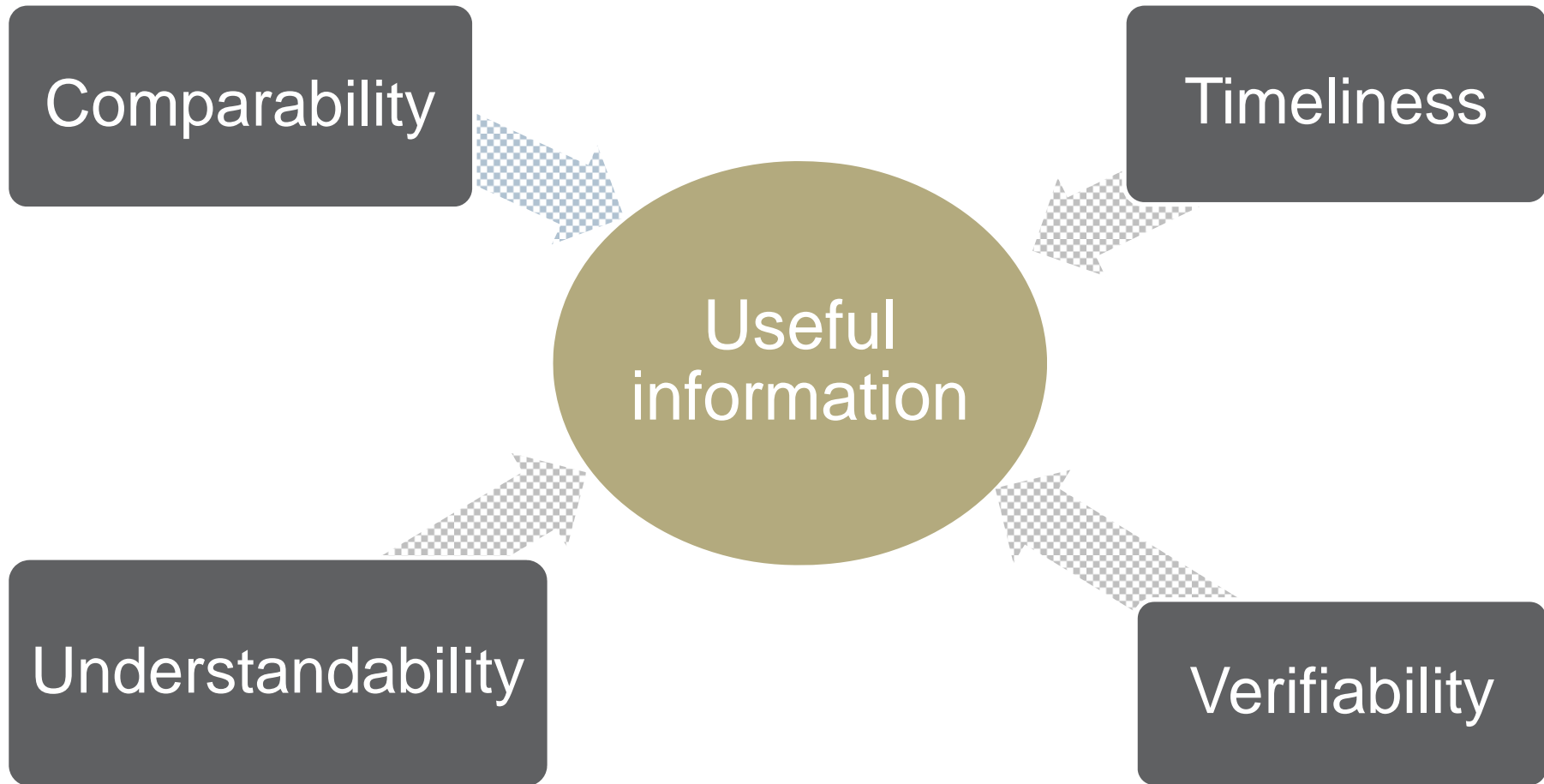
Information about resources and claims against the entity, and changes to them

Information to assess effective and efficient management of resources

Qualitative characteristics: Fundamental

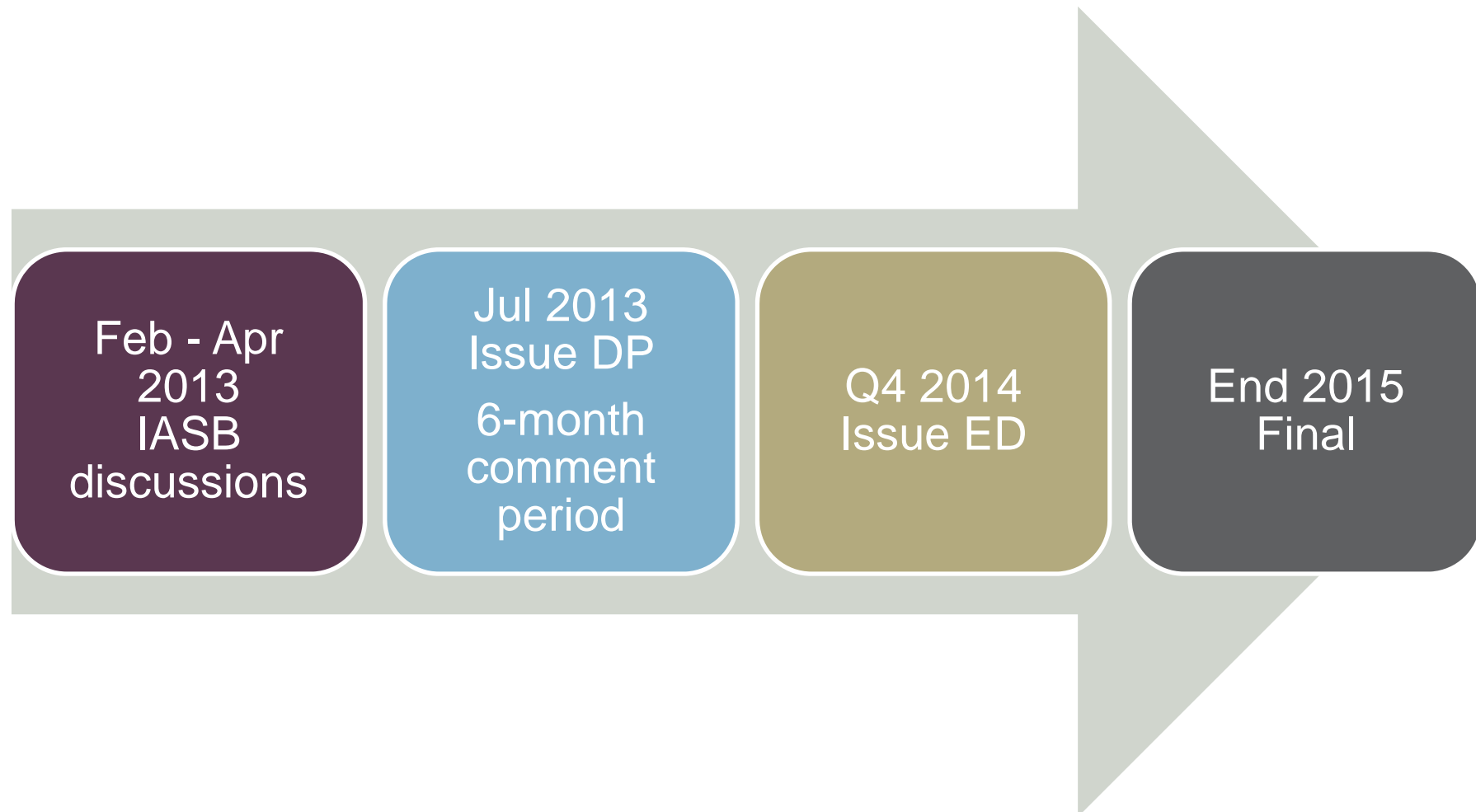


Qualitative characteristics: Enhancing



Current work

- IASB-only project
- Will cover
 - Purpose and status of the *Conceptual Framework*
 - Elements of financial statements
 - Recognition and derecognition
 - Measurement
 - Presentation and disclosure (including use of OCI)
 - Reporting entity



Feb - Apr
2013
IASB
discussions

Jul 2013
Issue DP
6-month
comment
period

Q4 2014
Issue ED

End 2015
Final

Discussion paper

- Purpose: starting point for discussion
- Who will we be talking to?
 - Round tables in October – November 2013
 - will involve all interested parties (users, preparers, regulators, accounting firms, national standard-setters, academics)
 - Users:
 - Telephone conference calls with user organisations
 - CMAC
 - Preparers eg GPF
 - National standard-setters eg ASAF
 - Academics: More outreach with academics than other projects
- Website and e-alerts

Some issues

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The objective of measurement is to faithfully represent relevant information about:

- the resources of the entity and claims against the entity
- how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

A single measurement basis will not provide the most relevant information

Consider information produced in both the statement of financial position and the statement of comprehensive income

Measurement (2)

Depends on:

- How an asset contributes to future cash flows (eg sell, rent)
- How the entity will fulfil or settle the liability

Number of different measurements used should be minimum necessary

Consider cost-benefit

Profit or loss and OCI

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- Retain profit or loss as an important subtotal or total
 - IASB's preliminary view
 - Two ways to retain profit or loss
 - Narrower use of OCI
 - Broader use of OCI
- Alternative approach
 - Single statement of comprehensive income
 - Not much support

Retain concept of profit or loss

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- Address two questions:
 - What distinguishes items of income or expense that are presented in profit or loss from items presented in OCI?
 - What items (if any) presented in OCI in one period should be reclassified (recycled) into profit or loss in the same period or a later period and why?
- Items in profit or loss communicate the primary picture of the return an entity has made on its resources
 - A common starting point for analysis
- Could still present as one or two statements

Narrower use of OCI

- OCI contains only changes in some current measures (remeasurements) in two categories:
 - ‘Bridging items’: arises where same asset/liability is represented in balance sheet and profit or loss using two different measures (see next slide)
 - ‘Mismatched remeasurements’: arises when offsetting impact of linked transactions or other events is not yet recognised eg cash flow hedging and foreign exchange translation
- OCI always recycled
- IASB does not have to use OCI for all items that qualify in the categories above
- Pensions? Investments in equities?

‘Bridging items’

Example:

Financial assets are measured at amortised cost in the statement of profit or loss and fair value in the statement of financial position.

Statement of profit or loss		Statement of comprehensive income	
	20XX		20XX
Interest income	A	Profit or loss	A-B+C
Impairment	(B)	Fair value changes	D
Reclassification adjustment on disposal	C	Fair value loss (gain)	(C)
Profit or loss	A-B+C	Total comprehensive income	A-B+D

- OCI contains only changes in some current measures (remeasurements) in **three** categories:
 - ‘Bridging items’
 - ‘Mismatched remeasurements’
 - **Transitory remeasurements** (see next slide)
- IASB does not have to use OCI for all items that qualify in these categories
- Some types of OCI recycled – **if** results in relevant information

Broader use of OCI (2)

- Transitory remeasurements (must meet **all** conditions):
 - Asset realised/liability settled over the long term
 - Current period remeasurement is expected to reverse fully or change significantly over the holding period of the asset or liability
 - Current period remeasurement enhances the relevance of profit and loss as the primary indicator of the return the entity has made on its economic resources.

Alternative approach

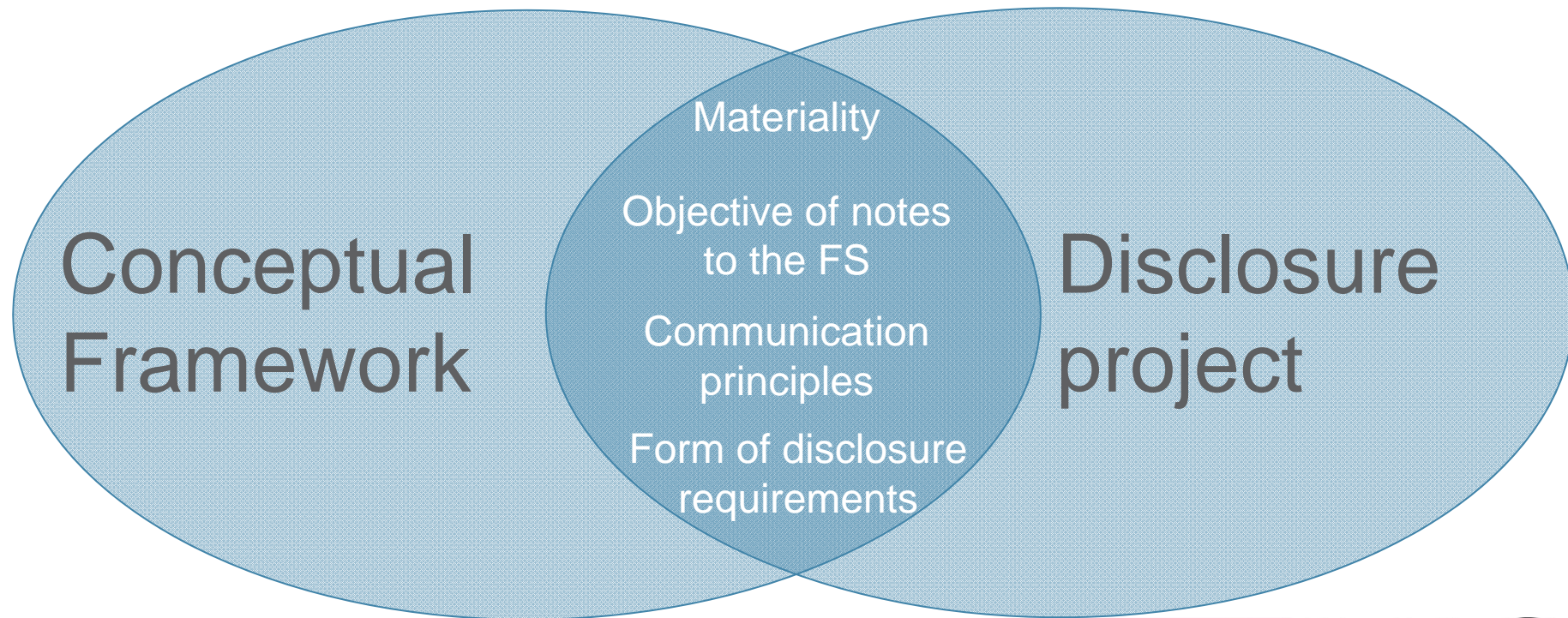
Single statement

- Single statement of comprehensive income
- No recycling
- Total/subtotals determined at Standards level
- Cash flow hedge accounting?

- 2011 Agenda Consultation
- Discussion Forum on disclosure in January 2013
 - Feedback Statement with key messages and next steps issued in May 2013

Short-term steps	Medium-term steps
Narrow-scope amendments to IAS 1	Research project on IAS 1, IAS 7 and IAS 8
Education material/guidance on materiality	Standards-level disclosure review
New EDs disclosure requirements	

- Disclosure project in parallel with *Conceptual Framework* project
 - Projects inform each other



Other areas

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Other gaps or areas to improve

Problems	Proposals
Some problems in practice on when a liability arises	Clarify when a liability occurs for future events
<ul style="list-style-type: none">• Conflicting guidance on liabilities/equity in IAS 32 & <i>Conceptual Framework</i>• Limited information on equity	Expand role of statement of changes in equity to provide information on different classes of equity
Confusion on terminology in definitions and recognition criteria	<ul style="list-style-type: none">• Clarify treatment of uncertainty• Update recognition criteria
No derecognition criteria	Introduce derecognition criteria

Topics in the *Conceptual Framework*

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Topics	In summary
Objective of financial reporting	<ul style="list-style-type: none">• Published 2010
Qualitative characteristics	<ul style="list-style-type: none">• Published 2010
Reporting entity	<ul style="list-style-type: none">• Will be developed from the ED 2010
Purpose & status	<ul style="list-style-type: none">• The <i>Conceptual Framework</i> will still be a guide for the IASB, not an IFRS• May be useful for other stakeholders
Elements	<ul style="list-style-type: none">• Assets/liabilities still describe real things (resources/obligations)• Additional guidance for some problems

Sections	In summary
Liabilities/ equity	<ul style="list-style-type: none">• Equity is still a residual• Expand role of statement of changes in equity to show the effect of different classes of equity claims
Recognition	<ul style="list-style-type: none">• Remove probability
Derecognition	<ul style="list-style-type: none">• New section
Measurement	<ul style="list-style-type: none">• New section

Topics (3)

Sections	In summary
Presentation & disclosure	<ul style="list-style-type: none">• New section
OCI	<ul style="list-style-type: none">• Retain profit/loss and OCI• Define OCI
Other issues	<ul style="list-style-type: none">• Going concern• Business model

- Conceptual Framework website:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Pages/Conceptual-Framework-Summary.aspx>

- *Conceptual Framework*:

<http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/conceptualframework.pdf>

Questions

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