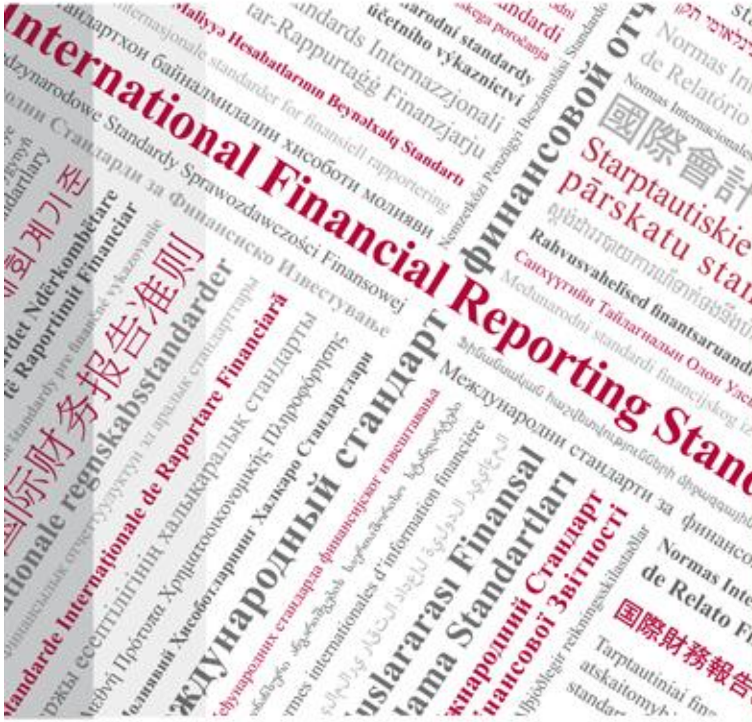

Global Preparers Forum, 11 November 2013

Agenda Paper 5

Conceptual Framework project

Guidance on liability definition—conditional obligations

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Purpose of session

The purpose of the session will be:

- to explain one of the problems that the IASB is seeking to address in its review of the *Conceptual Framework*, and
- to seek GPF members' views on 3 possible solutions.

The problem concerns the definition of a liability, and specifically the meaning of the term 'present' obligation. It is unclear whether an entity can have a present obligation while any requirement to transfer economic resources remains conditional on the entity's future actions. These future actions could involve, for example, exceeding a specified threshold, retaining employees until they meet vesting conditions, or operating in a specified market on a future date.

Existing IFRSs take different approaches. The IASB aims to develop a principle for the *Conceptual Framework*, which it could apply to achieve more consistency when developing or amending IFRSs in future.

The *Conceptual Framework* Discussion Paper considers three different views, which we will explain further in the meeting before asking for your views.

The IASB staff will present the slides that follow as an introduction to the discussion.

Conceptual Framework project overview

Project objectives

- Not a fundamental re-think
- Focus on weaknesses that have given problems in practice
- Filling in gaps, and updating and improving existing guidance

Discussion Paper objectives

- Preliminary views - starting point for further discussion and consultation
- Seeking your views by 14 January 2014

Project consequences

- New *Conceptual Framework* will not override existing IFRSs

Conditional obligations—examples of variations in IFRS requirements

IFRS	Transactions addressed	Liability before conditions met?	Reason
IAS 37 *Provisions* + IFRIC 21 *Levies*	Many – eg levies payable only if entity is operating in a market on a future date.	**No**	Only obligations 'existing independently of entity's future actions' are recognised.
IAS 34 *Interim Financial Statements*	Lease payments contingent on entity exceeding annual sales threshold.	**Yes** as sales are made, **if** expect to exceed threshold.	Entity has 'no realistic alternative but to make the future lease payments'.
IAS 19 *Employee benefits*	Profit-sharing / bonus payments that are conditional on future employment.	**Yes** 'as employees render service that increases the amount to be paid'.	Future payments arise from past service. (Conditions are reflected in measurement.)

Liability definition proposed in Discussion Paper

A present obligation

of the entity

to transfer

an economic resource

as a result of past events.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

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‘Present’ obligation—views considered in Discussion Paper

View 1

An obligation that:

- arises from past events, and
- is strictly unconditional.

The entity has no ability to avoid the transfer through its future actions.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

View 2

An obligation that:

- arises from past events, and
- is practically unconditional.

The entity does not have practical ability to avoid the transfer through its future actions.

View 3

An obligation that:

- arises from past events, and
- may be either unconditional or conditional on the entity’s future actions.

On meeting any further conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.

Conditional obligations—example—levy on revenues

Fact pattern

A government charges a levy on entities that supply electricity to a specific domestic market.

Suppliers are permitted to enter or leave market at any time.

The levy is charged on entities operating in the market on 1 April each year.

The levy is 1% of the entity's revenue in previous calendar year.

An electricity supplier prepares financial statements for year ending 31 December 20X0.

It earned revenue of 100 million currency units in 20X0.

It will pay a levy of 1 million currency units if it is still in the market on 1 April 20X1.

Question

Does the supplier have a present obligation at 31 December 20X0?

Conditional obligations—example—levy on revenues

Analysis of whether electricity supplier has a present obligation

Criteria	View 1	View 2	View 3
Past event?	Yes	Yes	Yes
Strictly unconditional?	No		
Practically unconditional?		Probably, in this case	
Present obligation?	No	Probably, in this case	Yes

‘Present’ obligation—IASB’s preliminary views

View 1

An obligation that:

- arises from past events,

  and

- is strictly unconditional.

The entity has no ability to avoid the transfer through its future actions.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

View 2

An obligation that:

- arises from past events,

  and

- is practically unconditional.

The entity does not have practical ability to avoid the transfer through its future actions.

View 3

An obligation that:

- arises from past events,

  and

- may be either unconditional or conditional on the entity’s future actions.

On meeting any further conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.

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