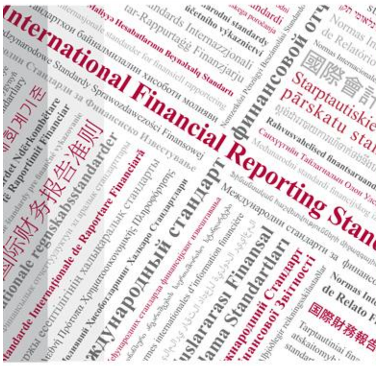
International Financial Reporting Standards



Conceptual Framework

IFRS Advisory Council October 2013

Peter Clark
Director of Research

Rachel Knubley
Technical Principal

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

Conceptual Framework

- Project objectives
- Strategic issues
  - Purpose of the Conceptual Framework
  - Status of the Conceptual Framework
  - Approach to chapters of Conceptual Framework published in 2010 (Chapters 1 & 3)
- Timeline
- Questions

Project objectives

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

Purpose of Conceptual Framework

Existing

- Assist IASB:
  - Develop new or revised IFRSs
  - Harmonise accounting standards
- Assist national standard setters
  - develop national standards
- Assist preparers:
  - apply IFRSs
  - deal with topics not covered by IFRS
- Assist auditors to form an opinion
- Assist users in interpreting financial statements
- Provide information about formulation of IFRSs

Preliminary views

- Primary purpose to assist IASB by identifying concepts that can be used when developing new or revised IFRSs
- May also assist parties other than the IASB to:
  - Understand and interpret existing IFRS
  - Develop accounting policies when no standard or interpretation specifically applies

Status of Conceptual Framework

Not a standard or interpretation

- High-level concepts only
- Does not override any specific Standard or Interpretation

IASB may issue IFRSs that conflict with the Conceptual Framework

- If necessary to meet overall objective of financial reporting
- IASB must describe and explain reason for departure

Some aspects intended for use by the IASB only

- Not to be used by preparers in developing accounting policies (eg when to present items in OCI)

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Chapters 1 & 3

Published in 2010 and used in developing the DP

- Chapter 1 – *The objective of General Purpose Financial Reporting*
- Chapter 3 – *The Qualitative Characteristics of Useful Financial Information*

No fundamental reconsideration

- Been through extensive due process
- Provides sound foundation
- Reconsideration would be unlikely to lead to significant change

Will make changes if other work highlights the need

Seeking views on this approach in the DP

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Chapters 1& 3 - Concerns raised

Stewardship
- The objective in Chapter 1 does not use the word ‘stewardship’

Reliability
- Chapter 3 replaced ‘reliability’ with ‘faithful representation’

Prudence
- Reference to prudence removed from Conceptual Framework

Timetable

18 Jul 2013
Issue DP
6-month comment period
(14 Jan 2014)

Q4 2014
Issue ED

End 2015
Final

Questions

Purpose of Conceptual Framework

- Do you agree that the primary purpose of the Conceptual Framework should be to assist the IASB by identifying concepts that can be used when developing new or revised IFRSs?

Status of Conceptual Framework

- Do you agree with the status of the Conceptual Framework as described on slide 5? In particular, do you agree that the IASB may issue IFRSs that conflict with aspects of the Conceptual Framework if that is necessary to meet the objective of financial reporting?

Approach to Chapters 1 & 3

- Do you support the IASB's proposed approach to Chapters 1 & 3 of the existing Conceptual Framework?
- If you believe that the IASB should consider changes to those chapters, please describe those changes and the reasons for them.

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Background

The following slides provide additional background on Chapters 1 and 3 of the existing Conceptual Framework. We do not propose to discuss these slides at the meeting.

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)

Users need information to help them assess the prospects for future net cash inflows to the entity (OB 3)

Information about resources and claims against the entity, and changes to them (OB 4)	Information to assess effective and efficient management of resources (OB 4)

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Qualitative characteristics

Fundamental qualitative characteristics

- Relevance
- Faithful representation
  - Complete
  - Neutral
  - Free from error

Useful

Enhancing qualitative characteristics

- Comparability
- Understandability
- Verifiability
- Timeliness

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Stewardship – Concerns raised

Pre-2010 Conceptual Framework made explicit reference to Stewardship

- *Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it*

The objective in Chapter 1 does not use the word ‘stewardship’

Some believe that this means:

- Information about stewardship is not needed
- Financial reporting is more focused on needs of short-term (rather than long-term) investors

Stewardship - Response

Information about stewardship important for meeting the objective of financial reporting

- Users need information about how efficiently and effectively management has discharged its responsibility to use the entity’s resources (OB4)

Term ‘stewardship’ difficult to translate so not used

Reliability – Concerns raised

Pre-2010 Conceptual Framework stated that ‘reliability’ was a qualitative characteristic of useful financial information

Chapter 3 replaced ‘reliability’ with ‘faithful representation’

- Information is useful if it is relevant and it faithfully represents what it purports to represent

Some have stated that:

- Information is not useful if users cannot rely on it
- The concept of reliability is better understood, and easier to explain, than faithful representation
- Reintroducing the concept of reliability is more likely to result in the use of measurements that would be more verifiable and less subject to error

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Reliability - Response

Reliability was not well understood

- Many equated reliability with verifiability and freedom from error (verifiability is an enhancing qualitative characteristic in Chapter 3)

Reliability (pre-2010)	Faithful representation
Free from material error or bias	Free from error and neutral
Can be depended upon by users to faithfully represent what it purports to represent	Information is useful if it faithfully represents what it purports to represent
Neutral	Neutral
Complete	Complete
Substance over form	Accounting in accordance with form rather than substance could not result in a faithful representation
Prudence	Not included – see following slides

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Prudence - Description

Pre-2010 Conceptual Framework described prudence as:

- The inclusion of a degree of caution in the exercise of the judgements made under conditions of uncertainty such that assets or income are not overstated and liabilities or expenses are not understated.

The exercise of prudence does not allow for deliberate understatement of assets or income or overstatement of liabilities or expenses

Concerns raised

Some believe:

- Deliberately using conservative estimates may counteract over-optimistic management estimates
- Removal of prudence could result in the recognition of assets and gains whose existence is uncertain
- Removal of prudence could result in the non-recognition of some possible liabilities and possible losses
- Removal of prudence may increase use of current values (including fair value, especially level 3)

Prudence - Response

Few would disagree that caution should be exercised when making estimates and judgements under conditions of uncertainty

Prudence not included as an aspect of faithful representation because:

- Inconsistent with neutrality
- Understating assets and overstating liabilities in one period leads to overstatement of financial performance in later periods

Not clear that excluding prudence has led (or will lead) to more widespread use of fair value

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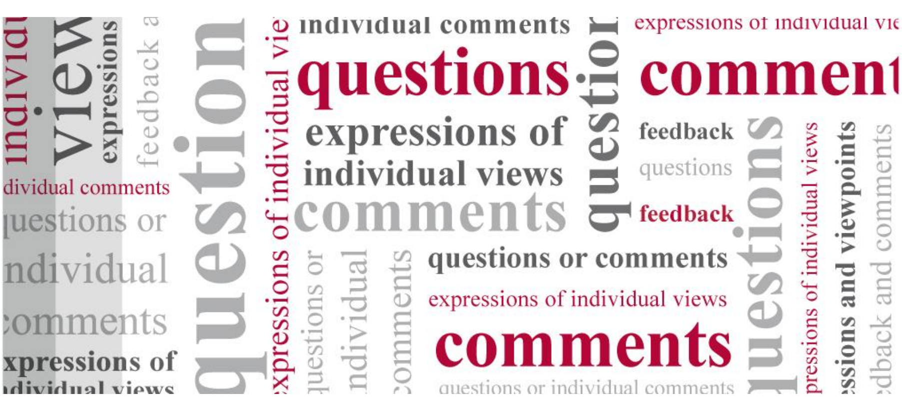
Thank you



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