

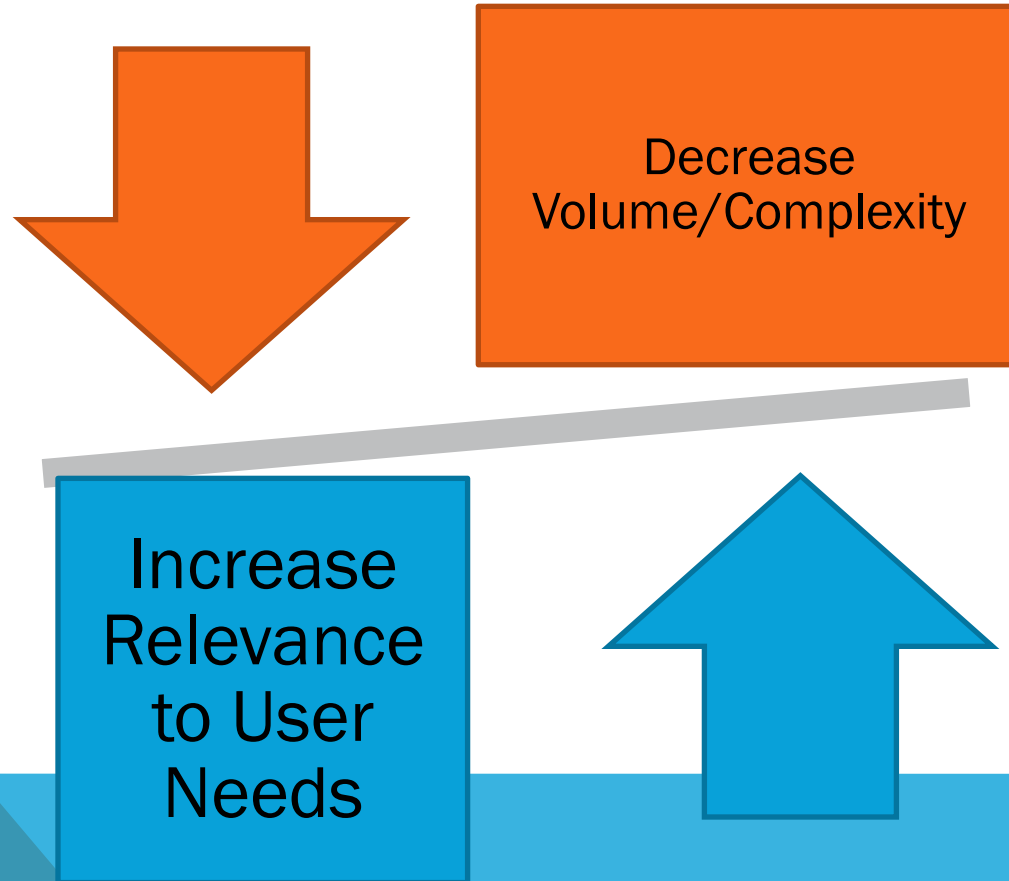
RE-THINKING THE PATH FROM ECONOMIC DECISION- MAKING TO A DISCLOSURE AND PRESENTATION FRAMEWORK

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THE CHALLENGE OF DISCLOSURE OVERLOAD



RE-THINKING THE PATH FROM ECONOMIC DECISION-MAKING

The Issue - A Gap in the Framework

1. The Conceptual Framework (CF) does not identify the generic characteristics of an entity that need to be known by users when making economic decisions

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The Contention - A Gap in the Framework

2. Therefore, the CF lacks principles powerful enough to drive decisions in the lower reaches of the Framework, including those about disclosure and presentation (D&P)



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The Contention - A Gap in the Framework

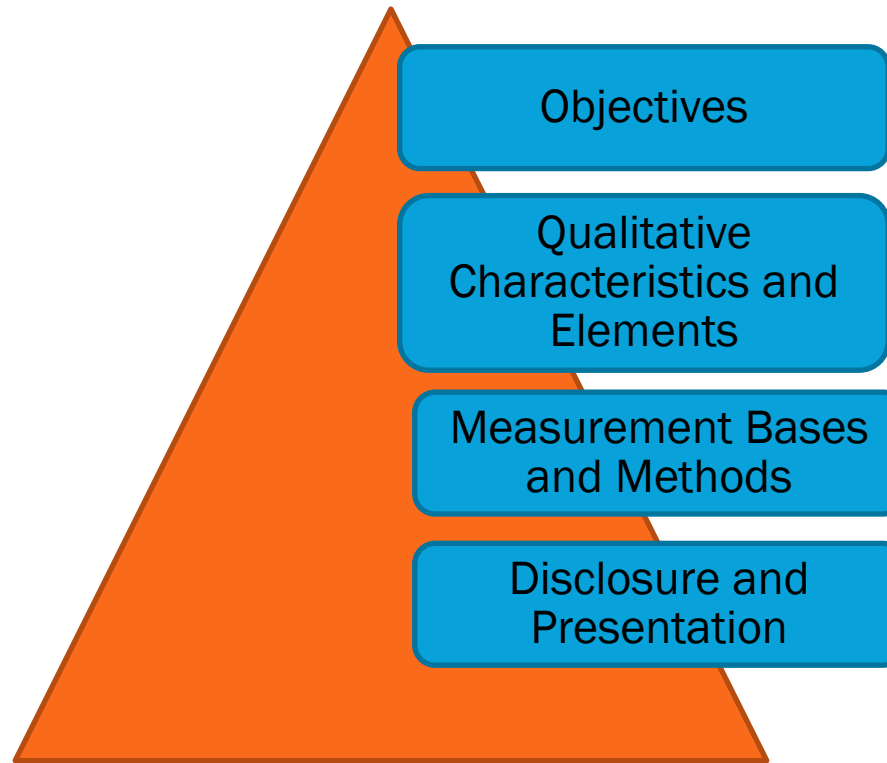
3. The phrase “amount, timing and uncertainty of cash flows”, used to gain focus when determining disclosures, is not explicitly articulated with economic decision-making.
4. Topically driven disclosures and presentation changes are becoming excessive.

RE-THINKING THE PATH FROM ECONOMIC DECISION-MAKING

The Contention - A Gap in the Framework

5. D&P should be “objectives driven” - answering the question “what are we really trying to tell users that will help them make economic decisions?”

CONVENTIONAL CF HIERARCHY



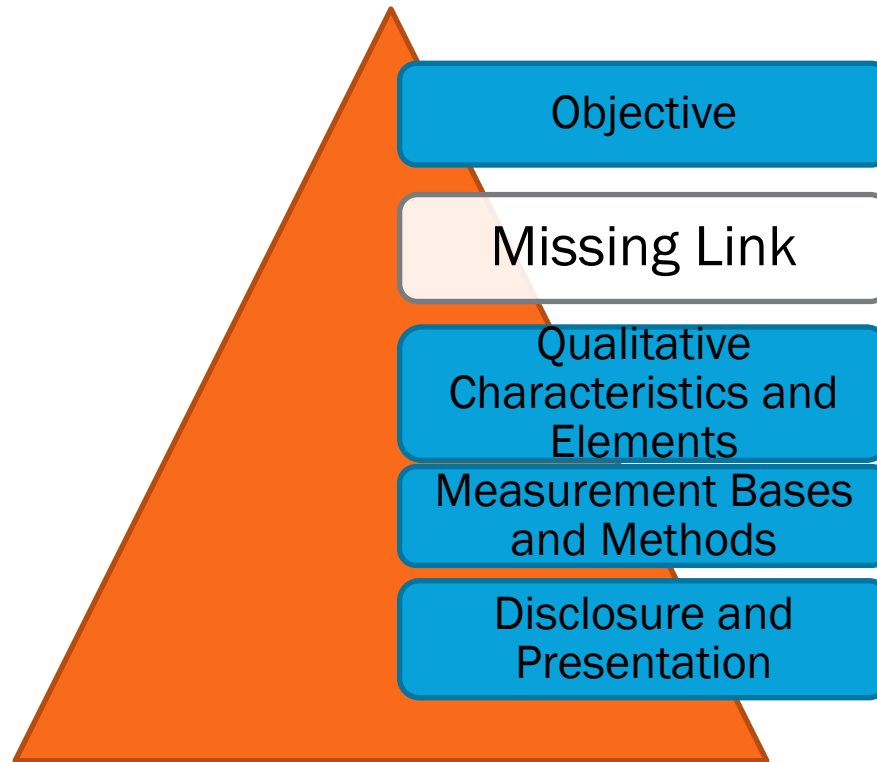
VARIATIONS ON CONVENTIONAL CF HIERARCHY



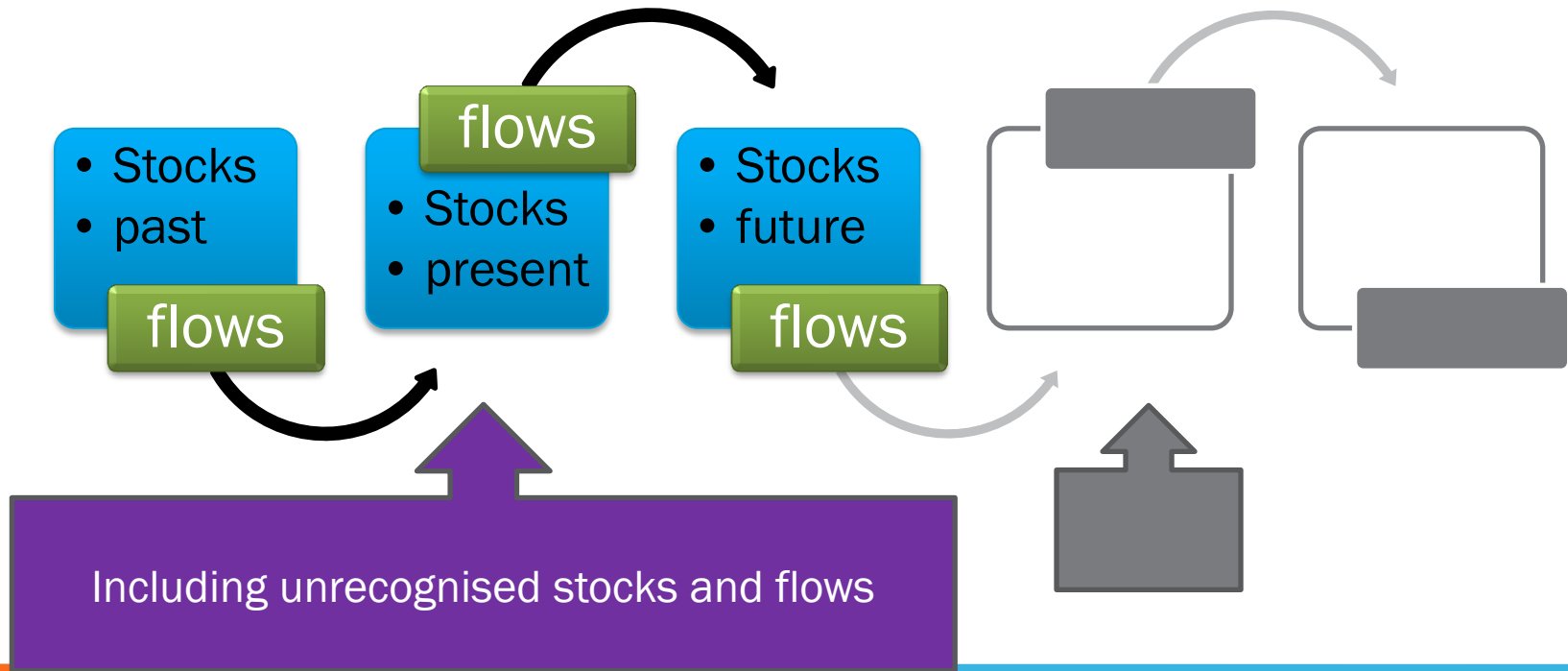
Financial
Reporting

Reporting
Entity

CONVENTIONAL CF HIERARCHY



CHARACTERISTICS OF AN ENTITY RELEVANT TO ECONOMIC DECISION MAKING?

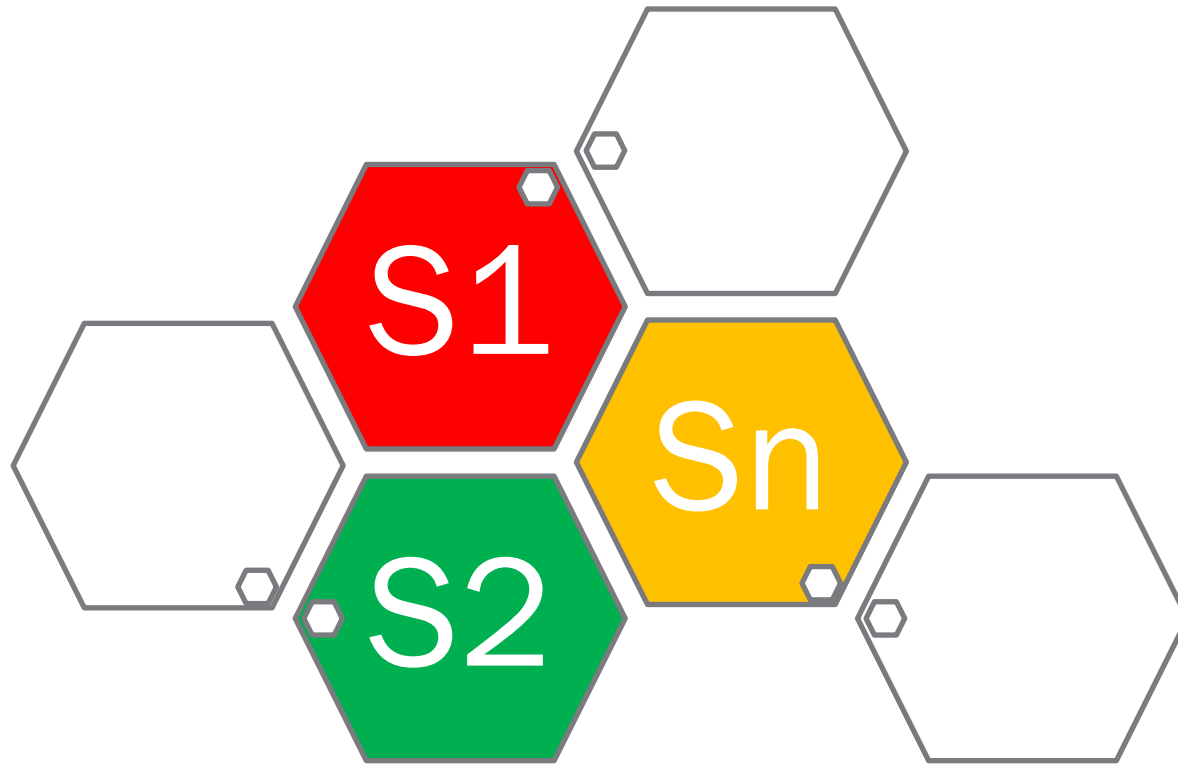


STOCKS

Possible definition:

“The accumulated positions, attributes or standings of an entity, at any one time, knowledge of which could impact the resource allocations made by users at that time”

HOW MANY STOCKS?



STOCKS

Contention: Only a limited number of “stocks” are relevant to the common information needs of users

FLOWS

Flows are simply the changes in stocks.

FLOWS: WHAT ARE EXPECTATIONS ABOUT THE AMOUNTS, TIMING, VELOCITIES AND UNCERTAINTIES (ATVU) OF FLOWS?



IF IT HELPS

The combination of the “stocks” = financial position

The effects of (all) the flows = performance

But merit is seen at the level of the Framework in which a gap is perceived not to be thinking about accounting responses. We are trying to identify what must be reported upon, not how. (+there is too much intellectual baggage in familiar terms.)

THE QUESTION

So what are the stocks users need to know about , for which flows explain performance?

STOCKS – SIMPLIFIED

1. Capacity to provide goods and/or services (operating capacity)

2. Capacity to fund existing operating capacity (financial capacity)


3. Capacity to sustain operations (operational sustainability)

4. Capacity to sustain funding model (financial sustainability)

5. Capacity to change operations (operational adaptability)

6. Capacity to change funding model (financial adaptability)

THE STOCKS AND FLOWS ARE INTER-RELATED

- 1. There are shifting relationships between the 6 stocks and flows over time**
 - 2. The importance of particular stocks and flows to individual entities will vary.**
 - 3. Remember financial reports are but one source of financial information**
- 

SIMPLE EXAMPLE OF PURPOSE DRIVEN DISCLOSURES

Question: Consider a manufacturer that supplies goods and services (widgets) and identify those standards relevant to the current ability to provide goods and services (stock 1) only. (ignore specialised industry standards such as investment properties, extractive activities, construction contracts, agriculture, etc.)?

EXAMPLE CONTINUED

The answer: at least 9 major standards (IAS 1 – presentation of financial statements; IAS 2 – inventories; IAS 7 cash flow statements (for balance of cash and cash equivalents – working capital); IAS 16 – property plant and equivalent; IAS 17 – leases; IAS 31 Interests in joint ventures (for jointly controlled assets); IAS 36 – Impairment of assets (for balances of); IAS38 - intangible assets; IFRS 8 – Operating Segments (segment assets))

EXAMPLE CONTINUED

These disclosures are not focussed on the entity's operating capacity at balance date and how it has changed during the period.

Why could we not rationalise these disclosures?

Would users not quickly comprehend what is being conveyed if the purpose is clear?

IN SUMMARY

1. We need to discern the generic characteristics of entities about which information can serve the common needs of users.
2. The six stocks identified are a basis . They will vary in importance between entities and over time.
3. With flows we need to consider all movements in stocks as performance, having regard to:
 1. Timing
 2. Amount
 3. Velocity
 4. Uncertainty
4. These ideas are likely to also be relevant to determining the borders of financial reporting and to measurement.

A CAUTION

The whole emphasis of the foregoing is about identifying the generic characteristics of entities separately from accounting responses.

A disclosure and presentation framework would also need to consider principles that would be relevant to possible accounting responses (e.g. providing principles for providing data covering various periods – including ,say, using comparable classifications).

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