

International Financial Reporting Standards



Conceptual Framework

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

Agenda

- Background
- Feedback on the Discussion Paper (DP)
- Strategy
- Purpose and status
- Chapters 1 & 3
- Questions

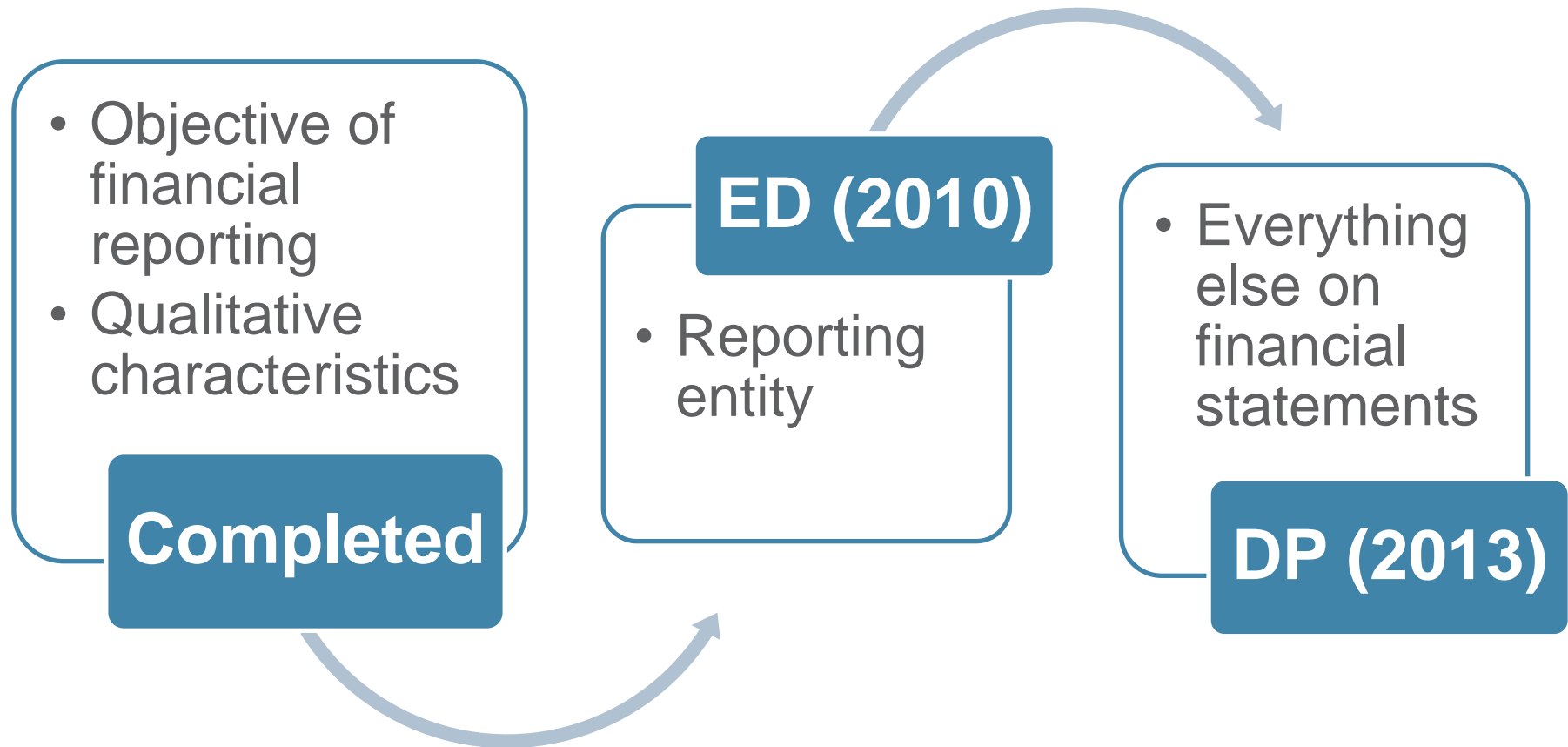
Background

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Why?

- Agenda consultation
 - Priority project
- Purpose of *Conceptual Framework* project
 - Not a fundamental rethink
 - Update, improve and fill in gaps
 - Focus on problems in the real world

Where we started?



Update

- Definitions
 - Assets
 - Liabilities
 - Income
 - Expenses
 - Equity
- Recognition

Fill in the gaps

- Profit or loss/ other comprehensive income (OCI)
- Disclosure
- Derecognition
- Measurement

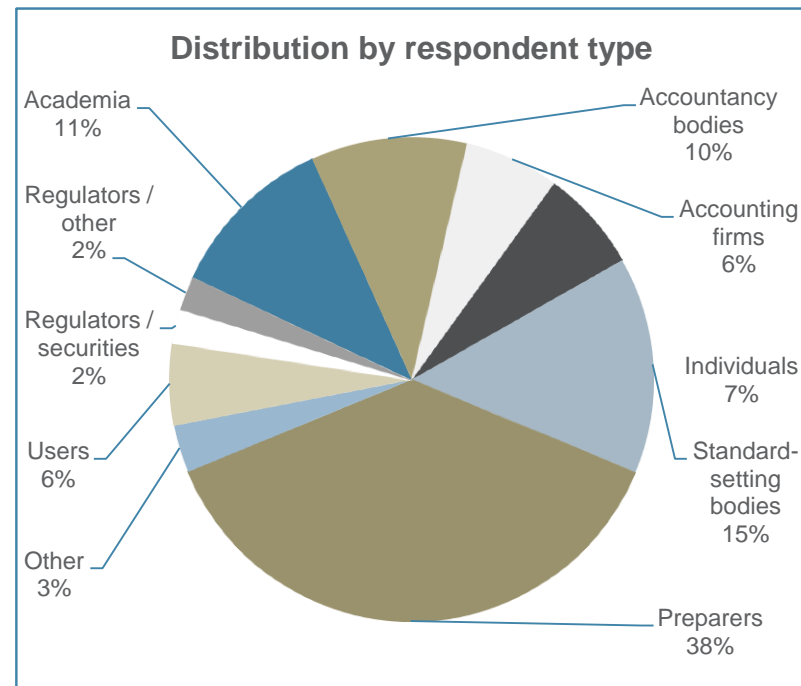
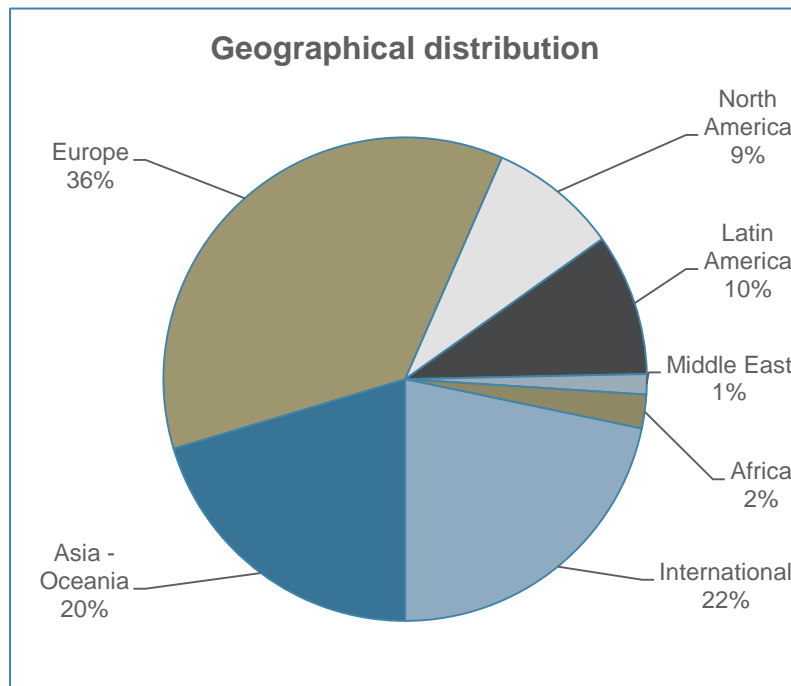
Suggested not to reopen chapters covering objective of financial reporting and qualitative characteristics (Chapters 1 & 3) that were finalised in 2010

Feedback on the Discussion Paper

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Feedback on DP

- 145 outreach meetings including roundtables
- Six-month comment period ended 14 January 2014
- Received 226 letters



What we heard: general comments

- Support to update the *Conceptual Framework*
- Support for many of the IASB's preliminary views
- Some areas need more work (measurement, OCI)
- Some think that the IASB needs to reconsider some of the conclusions in Chapters 1 & 3:
 - Prudence, reliability, stewardship and others
- Timetable
 - Some support completion by end 2015
 - Others believe we should take more time, at least for some sections (eg measurement, OCI, liabilities/equity)

Strategy

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Overall strategy for ED

- Complete in a timely manner
 - Some areas (eg measurement, OCI) will be less developed than other areas
- Continue with scope
 - updating, improving and filling in the gaps
 - address only financial statements
- Most areas, build on the suggestions in the Discussion Paper modified in the light of responses to the Discussion Paper
 - See next slide for measurement, OCI and liabilities/equity

Measurement

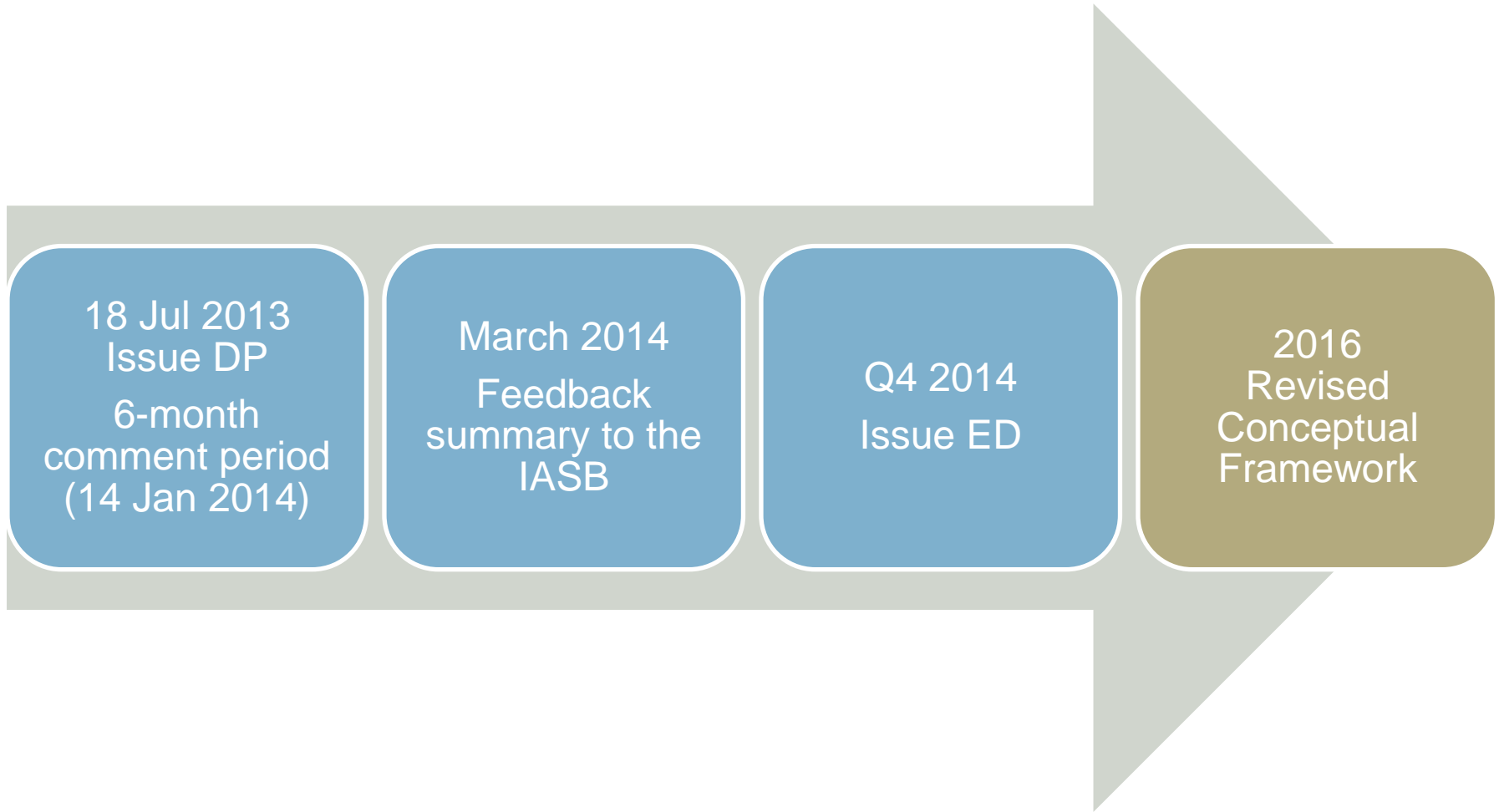
- Build on the proposals in the DP, modified in the light of feedback received, rather than undertaking further research work on measurement

Distinction between liabilities and equity

- Keep a binary distinction of liabilities and equity, build on the feedback received on the DP and work on a separate research project
- Not provide detailed guidance in the Conceptual Framework on how to distinguish liabilities from equity instruments

Distinction between profit or loss and OCI

- Emphasise the role of profit or loss as the primary source of information about an entity's performance
- Provide high level guidance to the IASB on how it could use OCI



Purpose and status

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Discussion Paper

- The primary purpose of the CF is to assist the IASB in developing and revising Standards
- In rare cases the IASB may issue a Standard that conflicts with an aspect of the CF:
 - Explain departure

Feedback

- Mixed support for the idea that the primary purpose of the CF is to assist the IASB in developing Standards:
 - it understates the role of the Conceptual Framework
 - the needs of other parties should be considered
- Many agreed that the CF is not a Standard
- Many agreed that in rare cases Standards may conflict with the CF

- The purpose of the Conceptual Framework should be to identify the concepts that:
 - assist the IASB to develop and revise the Standards
 - assist preparers to develop accounting policies when no Standard applies
 - assist all parties to understand and interpret the Standards
- The Conceptual Framework is not a Standard and does not override the requirements of specific Standards.
- Preparers should not be restricted from applying any aspect of the Conceptual Framework.
- Departures by the IASB from aspects of the Conceptual Framework are permitted but must be explained.

Chapters 1&3

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Discussion Paper

- The IASB does not intend to fundamentally reconsider the existing chapters on objective of financial reporting and qualitative characteristics (Chapters 1 and 3)

Feedback

- Most respondents asked the IASB to reconsider at least some aspects of Chapters 1 and 3, such as:
 - treatment of stewardship
 - the decision to remove any reference to prudence
 - the decision to replace the fundamental characteristic of reliability with that of faithful representation

Staff recommendations – May 2014

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Stewardship

- Increase the prominence of stewardship within the overall objective of financial reporting
- Information needed to assess stewardship is identified as separate from information needed to assess prospects for future cash flows

Reliability

- No changes proposed

Prudence

- Describe prudence as caution under conditions of uncertainty
- Reintroduce this notion for both preparers and the IASB
- Explain consistency with neutrality

Other

- Include explicit reference to substance over form in Chapter 3

Questions for the Council

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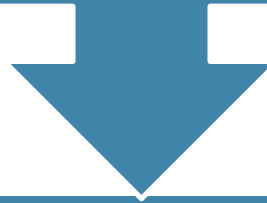
- What advice can you provide to the IASB on the proposed strategy and timetable for the Conceptual Framework project (slides 11 & 12)
- What factors do you think the IASB should consider when developing the description of the purpose and status of the Conceptual Framework (slide 16)?

Background information

Chapters 1 and 3

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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)

Chapter 3 - Qualitative characteristics

- Relevance
- Faithful representation

Fundamental qualitative characteristics

Useful

Enhancing qualitative characteristics

- Comparability
- Understandability
- Verifiability
- Timeliness