STAFF PAPER

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Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting

Project	**Conceptual Framework**		
Paper topic	Cover note		

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Purpose

1. During this session, the CMAC and GPF members will be discussing two topics from the *Conceptual Framework* project:
   (a) How to distinguish between liabilities and equity (Agenda Paper 2A); and
   (b) When to include items of income and expense in profit or loss and other comprehensive income (OCI) (Agenda Papers 2B and 2C).
2. GPF and CMAC members will be split into four groups in which two groups will discuss the distinction between liabilities and equity and another two groups will discuss the other topic. Then, each group will report a summary of their discussion.

Distinction between liabilities and equity (Agenda Paper 2A)

3. The distinction between liabilities and equity affects various ratios and analyses:
   (a) Total liabilities and total equity are distinguished on the statement of financial position.

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/CMAC/Pages/CMAC.aspx

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx

(b) Changes in liabilities effect profit or loss and other comprehensive income, changes in equity do not.

(c) Liabilities are directly re-measured and equity is not.

4. We have set out three different approaches to distinguishing liabilities and equity to compare and contrast the effects of the distinction:

(a) The settlement approach is based on how an obligation is settled.

(b) The value approach is based on the amount of the obligation.

(c) The narrow equity approach is based on the most residual class of equity

5. In the breakout session, GPF and CMAC members are asked to focus on the classification effects of the following:

(a) **Share-settled debt**: Obligations to deliver a variable number of common shares equal to the value of a fixed monetary amount (eg CU 100).

(b) **Puttable shares**: Obligations to deliver a variable amount of cash equal to the value of a fixed amount of common shares.

6. In your discussion, we would like you to discuss:

(a) For users, how would the classification of these instruments as liabilities or equity affect your analysis. For preparers, how would the classification of these instruments affect how you present your results to investors? You may, for example, want to think about how the classification affects the assessment of:

(i) the sufficiency of the entity's assets to meet its obligations.

(ii) the entity's liquidity and needs to raise finance.

(iii) the entity's performance and the distributions of its returns

(b) What information is best provided through the distinction between liabilities and equity, rather than through other means?

Including items of income and expense in profit or loss and OCI (Agenda Papers 2B and 2C)

7. In Agenda paper 2B, we outline the staff's proposed approach to profit or loss and OCI. In summary, we propose:

    (a) profit or loss is the primary source of information about an entity's performance for the period.

    (b) profit or loss should be required as a total or subtotal.

    (c) the objective of profit or loss is to depict the return for the period and to provide information that is helpful in assessing prospects for future net cash inflows and management's stewardship of the entity's resources.

    (d) a rebuttable presumption that items of income and expense should be included in profit or loss unless including them in OCI enhances the relevance of profit or loss for the period.

    (e) items of income and expense could be included in OCI (ie the presumption can be rebutted) when the IASB concludes that one measurement basis is appropriate for profit or loss and a different basis for balance sheet.

    (f) some items of income and expense should always be included in profit or loss (ie the presumption cannot be rebutted for those items.

    (g) a rebuttable presumption that items of income and expense included in OCI must be recycled unless recycling undermines the relevance of profit or loss for the period.

8. Please discuss these staff proposals. Please tell us whether you agree or disagree with them and reasons why you do so.

9. Agenda paper 2C is a set of slides that we will use as a tee-up during the meeting. You should read that set of slides in the context of Agenda Paper 2B.