

International Financial Reporting Standards

GPF meeting, March 2014
Agenda paper 8A

Overview of responses received on the *Conceptual Framework* DP March 2014

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

Session overview

- Why?
- Where are we?
- High level overview of feedback received:
 - General comments
 - Key issues
- Questions

Why?

- Agenda consultation
 - Priority project
- Purpose of *Conceptual Framework* project
 - Not a fundamental rethink
 - Update, improve and fill in gaps (see slide 4)
 - Focus on problems in the real world
- Purpose of the Discussion Paper
 - Starting point for discussion and outreach
 - Seek views on key issues from interested parties

Update

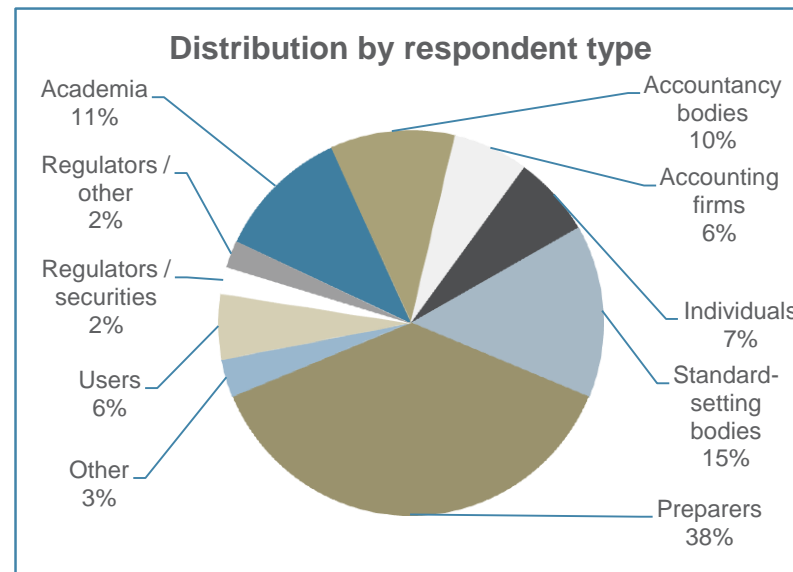
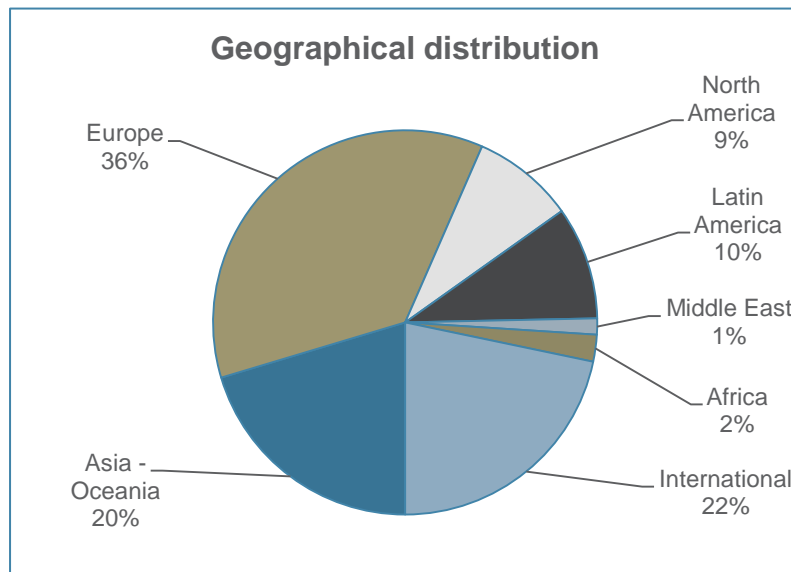
- Definitions
 - Assets
 - Liabilities
 - Income
 - Expenses
 - Equity
- Recognition

Fill in the gaps

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

Where are we?

- 145 outreach meetings including roundtables
- Six-month comment period ended 14 January 2014
- 221 letters received as of 24 February 2014



- Support for revision of the *Conceptual Framework*
- Some areas need more work (measurement, OCI)
- Timetable
 - Some support completion by end 2015
 - Others believe we should take more time
- Should review existing Standards and Standards under development for conflicts, but:
 - Some request stability
 - No general need to change Standards because of conflicts

Problem

- Different views of the purpose and status of the Conceptual Framework

Preliminary views

- 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

High level: What respondents said

- Mixed support on whether 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

Existing definition and recognition criteria

Asset [of an entity]	Liability [of an entity]
<ul style="list-style-type: none">• a resource controlled by the entity	<ul style="list-style-type: none">• a present obligation of the entity
<ul style="list-style-type: none">• as a result of past events	<ul style="list-style-type: none">• arising from past events
<ul style="list-style-type: none">• from which future economic benefits are expected to flow to the entity	<ul style="list-style-type: none">• the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Recognition criteria:
meets definitions, probable and measured reliably

Problem

- IASB and stakeholders may understand the definitions differently

Preliminary views

- Clarify definitions of an asset and a liability to focus on the resource and obligation
- Add guidance on key terms in the definitions

High level: What respondents said

- Most agreed with the clarifications of the definitions
- Hesitation on viewing assets as a bundle of rights
- No consensus on the point at which an obligation arises if an entity might be able to avoid it

Problem

- Lack of clarity on what ‘probability’ means
- Many equate ‘reliable measurement’ with precision

Preliminary views

- Recognise if information is relevant and faithfully represents the transaction
- Treat probability and reliable measurement as indicators in this assessment

High level: What respondents said

13

- Many agreed with the proposed recognition criteria
- Some favoured keeping the existing explicit criteria on:
 - probability
 - reliable measurement
- Some suggested taking into account:
 - enhancing qualitative characteristics
 - prudence

Problem

- No guidance

Preliminary views

- Mirror image of recognition in most cases, but in some cases may need to consider:
 - enhanced disclosure,
 - presentation on a separate line item or
 - continued recognition

High level: What respondents said

15

- General agreement that guidance on derecognition is needed
- Mixed views on how to derecognise an asset or a liability

Problem

- To distinguish liabilities from equity instruments, Standards use complex criteria that:
 - conflict with the conceptual definitions
 - are difficult to understand and apply

Preliminary views

- Retain existing definition of equity as a residual interest
- Use conceptual definition of a liability:
 - to show obligation to transfer economic resources
- Use expanded statement of changes in equity:
 - to show wealth transfers between equity holders

High level: What respondents said

17

- Respondents agreed that current Standards create confusion
- Most agreed with the preliminary views at a high-level:
 - mixed views regarding the details;
 - mixed views whether should be addressed within the Conceptual Framework project
- Mixed views on remeasurement (wealth transfer):
 - many supported additional information
 - but do benefits outweigh the costs?

Problem

- Limited guidance

Preliminary views

- Mixed measurement
- Selection depends on how an asset contributes to future cash flows or how the liability is settled
 - Consider information produced in both balance sheet and statement of comprehensive income

High level: What respondents said

19

- Nearly all supported the mixed measurement approach
- Most agreed with suggested approach for selecting a measurement basis
- Some stated:
 - Measurement section needs more work
 - Section included too much standards-level detail

Problem

- No guidance in the existing Conceptual Framework
- Existing requirements not always focused on the right disclosures

Suggested solution

- Revision of the Conceptual Framework to include principles on presentation and disclosure
- Disclosure Initiative
 - Improve disclosure requirements

High level: What respondents said

- Respondents provided specific comments which we will analyse for the Exposure Draft

Problem

- Agenda consultation
- Lack of clarity on role of profit or loss and OCI
- Users ignore OCI
- When recycle?

Preliminary views

- Retain profit or loss as a subtotal or total
- Some items should be recorded outside profit or loss
- Two approaches:
 - Always recycle approach (but narrower population)
 - Sometimes recycle (broader population)

High level: What respondents said

- Nearly all agreed that profit or loss should be required as a total or subtotal
- Many asked that the IASB should define profit or loss or performance
 - but very few provided definitions
- Most respondents thought that items recognised in OCI should be recycled to profit or loss
- Most supported a broader approach to OCI
 - but not necessarily for the reasons discussed in the DP

Problem

- Approach in Chapters 1 and 3 to the concepts of stewardship, reliability and prudence

Preliminary views

- The IASB does not intend to fundamentally reconsider Chapters 1 and 3

High level: What respondents said

25

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

Problem

- What is the role of the business model concept in standard-setting?

Preliminary views

- Financial statements can be made more relevant if the business model is considered when the Standards are developed

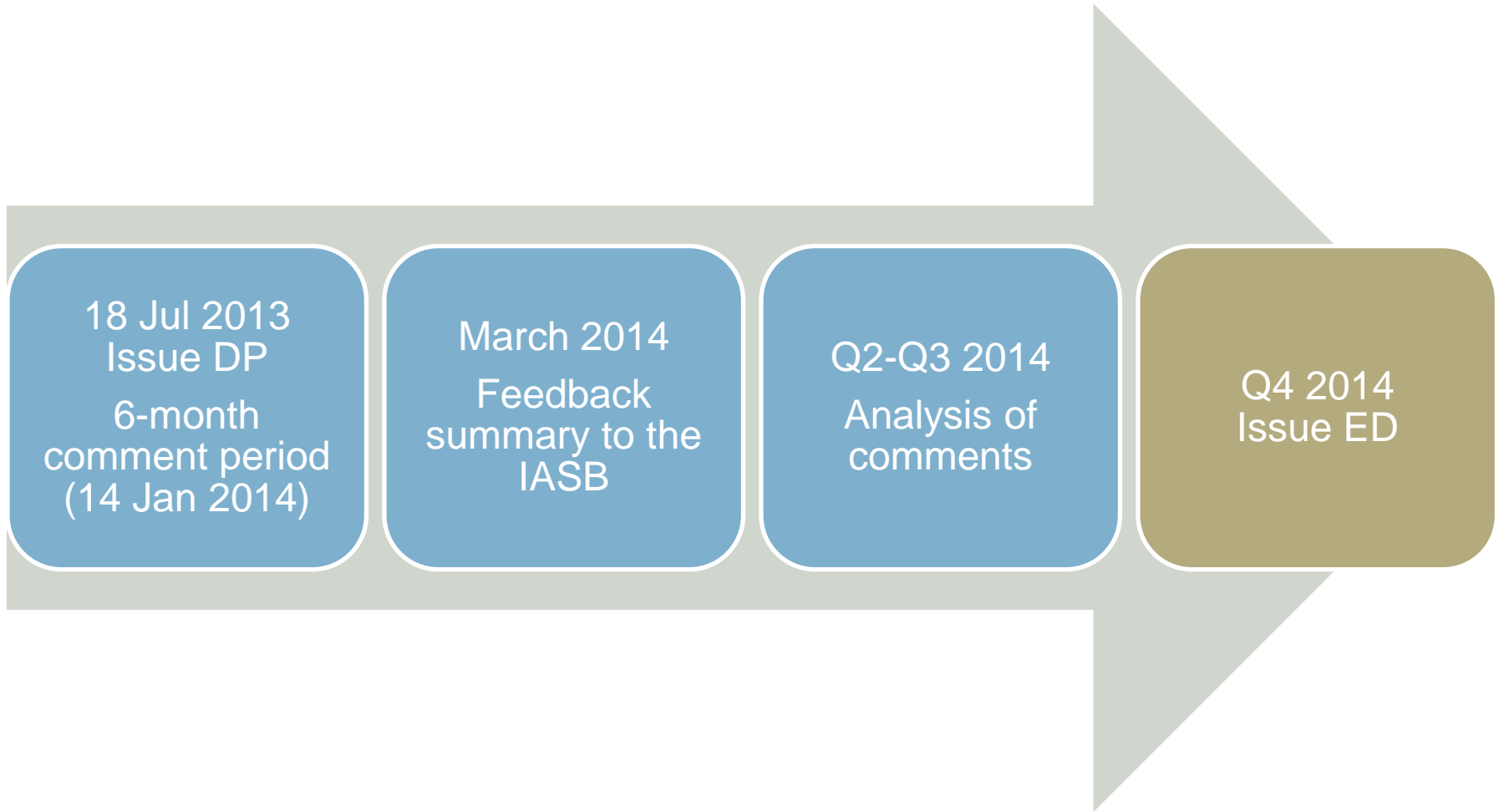
High level: What respondents said

27

- Most agreed that the business model should be considered when developing Standards
 - but mixed views on its significance in relation to other factors

Other issues

- Going concern
- Unit of account
- Reporting entity



More information

- Discussion Paper
<http://go.ifrs.org/DP-Conceptual-Framework-July-2013>
- Snapshot
<http://go.ifrs.org/Snapshot-DP-Conceptual-Framework-2013>
- *Conceptual Framework* website
<http://go.ifrs.org/Conceptual-Framework>
- Comment letters
<http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Discussion-Paper-July-2013/Pages/Comment-letters.aspx>

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