STAFF PAPER

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Project	**Conceptual Framework**
Paper topic	Feedback summary: elements of financial statements and recognition

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Purpose of paper

1. This paper summarises the feedback received on the following parts of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*:
   (a) Section 2, on elements of financial statements.
   (b) part of section 4, on recognition.
2. This paper provides a high level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Overview

3. Many respondents agreed that:
   (a) the definitions of an asset and of a liability should focus more on the resource or obligation, rather than the flows that might result from them.
   (b) the reference in the existing definitions to 'expected' flows should be replaced by the notion that the resource or obligation is capable of generating future flows. However, many respondents prefer to retain an

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explicit probability threshold in either the definitions or the recognition criteria.

(c) the recognition criteria should refer to relevance and faithful representation.

(d) the *Conceptual Framework* should acknowledge that significant uncertainty and significant measurement difficulties might undermine relevance and make it difficult to provide a faithful representation. However, many respondents believe it would be clearer and more straightforward to retain probability and reliability of measurement as explicit recognition criteria.

(e) cost-benefit considerations should play a role in recognition decisions, but some questioned whether the recognition section needs to refer to the cost constraint explicitly.

(f) there is no need to make major changes in this project to the definitions of income and expenses, or to the guidance accompanying those definitions. Respondents had mixed views on whether there is a need to define elements for the statements of changes in equity and of cash flows.

Structure of paper

4. This paper is structured as follows:

   (a) Definitions of an asset and of a liability (paragraphs 5–27)

   (b) Uncertainty (paragraphs 28–46)

   (c) Recognition (paragraphs 47–78)

   (d) Other elements (paragraphs 79–96)

Definitions of an asset and of a liability

5. This section deals with:

   (a) Background (paragraphs 6–7)

   (b) Overall feedback on the changes suggested in the Discussion Paper (paragraphs 8–12)

(c) Feedback on specific aspects of the definitions (paragraphs 13–27)

Background

6. The Discussion Paper proposed the following definitions:

    (a) an asset is a present economic resource controlled by the entity as a result of past events.

    (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

    (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

7. The Discussion Paper suggested changing the definitions to confirm explicitly that:

    (a) an asset (or a liability) is a resource (or obligation), rather than the ultimate inflow (or outflow) of economic benefits that the resource (or obligation) may generate.

    (b) an asset (or a liability) must be capable of generating inflows (or outflows) of economic benefits. Those inflows (or outflows) need not be certain.

Overall feedback on the changes suggested in the Discussion Paper

8. Many respondents agreed with the suggested changes to the definitions of an asset and of a liability. Many others agreed with the direction of the amendments, but suggested refinements. Some respondents disagreed with the changes. More specifically:

    (a) Most respondents agreed that the definitions should focus more on the resource or obligation than on the future flows of economic benefits that might result.

    (b) Many respondents also agreed with the proposal to replace the notion that future inflows or outflows of economic benefits must be ‘expected’. However, several respondents opposed this proposal. Several other respondents would agree with this change, but only if the recognition

criteria include an explicit criterion relating to probability (uncertainty). Paragraphs 28–46 discuss responses on probability and uncertainty.

9. Respondents who agreed with the suggested changes made the following comments:
   (a) The proposed definitions are clearer and easier to understand than the current definitions. They are more precise, more concise and focused, and less cumbersome, and show more clearly the parallel between an asset and a liability. They are likely to result in more consistent interpretations.
   (b) Removal of 'expected' appropriately focuses the definition on the resource and the capability of the resource (rather than future expectations).
   (c) The new definition is better suited to make room for considering intellectual property and other intangibles as assets.

10. The proposed definitions more accurately reflect how the IASB has used the existing definitions. A few respondents stated that there was no need to change the existing definitions. They made the following comments:
   (a) The existing definitions are well accepted and have not created confusion or major problems for preparers or users.
   (b) The proposed definitions do not differ from the existing definitions sufficiently to warrant the change.
   (c) The changes replace some notions (such as 'expected') with others (such as 'capable') that will be no better understood.

11. Many respondents stated that the new definitions are wider than the existing definitions. They expressed concerns that the broader definitions would:
   (a) together with the move to viewing assets as bundles of rights, put more pressure on the recognition criteria.
   (b) increase the workload for preparers.

Testing

12. Several respondents viewed the proposed changes as more than just clarifications. They asked the IASB to carry out further testing to assess whether the proposed definitions of an asset and of a liability:

(a) would be interpreted and applied consistently. Some suggest that the IASB should test the consistency of interpretations by publishing for comment a list of items it considers meet the proposed definitions.

(b) accord with what users and preparers consider to be assets and liabilities.

(c) would, together with the proposed approach to recognition, derecognition, measurement and presentation, result in useful information and provide operational solutions. Many commentators reported that they found it difficult to assess the suggestions in the Discussion Paper without having an indication of their overall effects.

Feedback on specific aspects of the definitions

13. Paragraphs 28–46 discuss feedback received on uncertainty. Respondents commented on various other aspects of the definitions of an asset and of a liability:

(a) economic resource (paragraphs 14–17)

(b) control (paragraphs 18–20)

(c) past event (paragraphs 21–24)

(d) other points - liabilities (paragraphs 25–26)

(e) other comments (paragraph 27)

Economic resource

14. The main structural change in the proposed definition was the proposal to introduce a separate definition of an economic resource. As noted above, most respondents supported the direction of the proposed changes to the definitions. Some respondents stated explicitly that they favoured the introduction of this separate definition. They stated that it:

(a) enhances the clarity and succinctness of the definitions.

(b) emphasises the parallel between the definitions of an asset and of a liability.

15. A few commentators objected to creating a separate definition. They argued that readers should be able to understand what an asset or liability is without having to look up other definitions.

16. Some respondents made other suggestions on economic resources:

    (a) The concept of 'economic resource' is defined with reference to two terms 'economic benefits' and 'value' that remain undefined. Hence, the proposed definitions do not enhance clarity or add new insights.

    (b) Because the definition of an economic resource refers in turn to future economic benefits, an asset should be defined as those future economic benefits, not as economic resource itself. What gives the resource value is the possibility of future inflows.

    (c) An asset should be defined as an economic good (a product or service that can command a price when sold) that is private (ie characterised by what economists refer to as excludability and rivalrous consumption).

    (d) The term 'economic resource' is too limiting and for some suggests only resources that have a market value. A preferable term is 'resource', which could include resources that are financial, tangible, intangible or human.

    (e) The IASB's *Conceptual Framework* is applied in some jurisdictions in the public sector, not-for-profit, and non-capital market settings. Therefore, the definition of an asset should include resources that provide benefits other than cash flows, such as social or environmental services or benefits to the reporting entity, to other parties or to wider society.

17. Agenda Paper 10D discusses feedback received on the suggested guidance on economic resource.

Control

18. Most who commented explicitly on the notion of control agreed that it needs to be included either in the definition of an asset or in the recognition criteria. However, a few respondents suggested that the notion of control should be replaced by a notion of risks and rewards, or that risks and rewards should play some role in supplementing the notion of control, or could serve as one indicator of control.

19. Most respondents did not comment on where the notion of control should appear (in the definition of an asset or in the recognition criteria). A few respondents stated explicitly that it should remain in the definition of an asset, for the following reasons:

(a) Control appropriately links an asset to the reporting entity, which is consistent with the ‘entity perspective’.

(b) It would not be efficient first to define assets and liabilities without a link to the entity and then establish the link in the recognition criteria. Hence, fish in the open sea should not meet the definition of an asset. They become assets of a particular entity only when they are caught. Thus, the reporting entity need not identify all possible assets before then using the recognition criteria to eliminate those assets that are not assets of the reporting entity.

20. Others believe that control should appear in the recognition criteria, rather than in the definition of an asset. They gave the following reasons:

(a) This would separate two questions that are independent of each other:

(i) does an asset exist?

(ii) who does the asset belong to? (who should account for it?)

(b) Defining who must account for a resource should be the subject of particular Standards. This question is too specific to tackle by a definition in the *Conceptual Framework*.

Past event

21. Paragraph 2.16(b) and(c) of the Discussion Paper suggested that:

(a) the phrase ‘as a result of past events’ should remain in both definitions.

(b) the word ‘present’ should remain in the definition of a liability and be inserted in the definition of an asset.

22. Several respondents explicitly supported retaining the reference to past events, on the following grounds:

(a) This reference is important to prevent recognition of items that depend largely on the entity’s own future acts, such as future operating losses.

(b) This reference will focus on the need to identify when and how the obligation was incurred, in order to ensure it is correctly recorded. This is consistent with the historical, largely transactions-based nature of accounting, and responds to an accountability objective.

(c) This reference may be needed to capture items such as a deferred tax liability and post-employment benefits: some believe that the obligation to pay tax or benefits will arise in the future but needs to be recognised now because it arises as a result of past events (for example, service by the employee).

(d) In discussing obligations conditional on the entity's own actions, the Discussion Paper uses the notion of a past event. Thus, this notion must remain in the definition of a liability.

23. Several other respondents opposed the reference to past events, on the following grounds:

(a) The reference is redundant. A present asset or liability cannot exist without a past event. Identifying that past event may help to determine how to portray that event in financial statements, but this point could be explained in the supporting guidance, rather than in the definitions.

(b) The reference may appear to create a requirement to search for, and identify, the past event.

(c) It is not clear which past events are sufficient to create an obligation. Moving the focus to the present condition would make the definition easier to apply in practice.

24. One respondent suggested that the word 'present' is helpful because some items can change their classification as an asset or liability from one period to another. However, a few respondents objected to the word 'present', on the following grounds:

(a) The reference to past events makes the term 'present' redundant.

(b) The definitions of an asset and of a liability apply to resources and obligations that exist at the reporting date. Thus, the term 'present' is superfluous and confusing.

(c) The word 'present' is mentioned explicitly in the definition of an asset and again implicitly in the discussion of 'control'. The explicit reference in the definition is redundant.

(d) 'Present' has two distinct meanings, one being the opposite of absent, and the other being the opposite of future. A term such as 'existing' would be clearer.

Other points – liabilities

25. A few respondents made other comments on liabilities:

    (a) Since an asset is defined as an economic resource, the definition of a liability could use the term 'asset' instead of 'economic resource'.

    (b) The definition of a liability should mirror the definition of an asset more closely by changes such as:

        (i) adding a supporting definition of 'present obligation'.

        (ii) using the concept of control to specify that a liability exists when the transfer of economic resources is out of the entity's control.

        (iii) adding 'owed by the entity' to link the obligation to the entity.

    (c) Depending on the view taken of the function of the reporting entity in society, liabilities could include not only obligations to transfer assets, but also obligations entered into for prudential (ie self-interested) or moral (ie ethical or social) purposes, to meet expectations of a broader group of stakeholders, or to maintain public support.

26. Agenda paper 10F discusses the distinction between equity and liabilities, and possible implications for the definition of a liability.

Other comments

27. Several respondents suggested refinements to the definitions. The staff will consider them in a future paper. A few respondents made other comments:

    (a) The IASB should consider whether the definition of an asset should include an 'identifiability' condition, as IAS 38 *Intangible Assets*, currently does in its definition of an intangible asset. Moreover, there may be little or no relevance in recognising an asset that is inseparable, ie it cannot be sold except together with the business of which it forms a part.

(b) The definitions of financial statement elements, and the resulting recognition, measurement, presentation and disclosure, should be linked through an explicit logic to the objective of general purpose financial reporting.

(c) The new definitions would make it clearer that regulatory assets and regulatory liabilities qualify as assets and liabilities.

(d) Contra-assets and contra-liabilities should be added as separate elements of financial statements. These reduce the carrying amount of recognised assets or liabilities (for example, accumulated depreciation, asset impairment accounts) and are often determined using a different unit of account, such as a portfolio.

Uncertainty

28. This section deals with the following subjects:

(a) Background (paragraph 29)

(b) Deleting the notion of an expected inflow or outflow (paragraphs 30–33)

(c) Existence uncertainty (paragraphs 34–41)

(d) Outcome uncertainty (paragraphs 42–46)

Background

29. The Discussion Paper set out the IASB's preliminary views that:

(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

(b) the *Conceptual Framework* should not set a probability threshold for the rare cases when it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or

liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.

(c) the recognition criteria should not retain the existing reference to probability.

Deleting the notion of an expected inflow or outflow

30. As noted above, the Discussion Paper suggested replacing the notion that an inflow or outflow of resources is expected with the notion that an asset (or liability) is capable of generating economic benefits (a transfer of economic resources). Many respondents agreed with that suggestion. They made the following comments:

    (a) Removal of 'expected' appropriately focuses the definition on the resource.

    (b) To retain a notion of expected or probable outflows or inflows would exclude many items that are clearly assets and liabilities, such as written and purchased options, stand-ready obligations and insurance contacts.

    (c) The notion of 'expected' is unhelpful, as interpretations of this term can vary widely and are often tied to a notion of a threshold level of probability.

    (d) Matters of uncertainty that underlie valuation are best dealt with in recognition criteria or in measurement rather than within the definitions.

    (e) There is little merit in the argument that removing the probability criterion will require considerable effort to identify assets and liabilities even if they will not be recognised. In practice, potential recognition will be in focus from the very beginning.

31. Other respondents favoured retaining the notion of an expected inflow or outflow of resources. They made the following comments:

    (a) Removing that notion considerably widens the range of items that will be identified as assets and liabilities. This may lead to:

        (i) pressure to identify every possible asset and liability, imposing a significant operational burden, for little benefit.

(ii) recognition as assets and liabilities of more items that are uncertain, improbable or hard to measure, unless the recognition criteria are made more robust.

(iii) a presumption that, in principle, all assets and liabilities should be recognised even if inflows or outflows are not expected.

(iv) pressure for disclosure about unrecognised assets and liabilities for which inflows or outflows are unlikely.

(b) If the term 'expected' is being interpreted inconsistently or misunderstood, the IASB could clarify how to interpret the term, instead of deleting it.

(c) The proposed threshold for the existence of an asset of 'capable of producing economic benefits' is low. Users and preparers do not regard an item as an asset if no inflows of economic benefits are expected. Benefits must be reasonably possible.

(d) Replacing 'expected' with 'capable' merely replaces one difficulty with another. The term 'capable' is subjective and may create ambiguity.

(e) Assessing whether a resource is 'capable of producing economic benefits' relies on the same thought process as assessing whether benefits are expected to flow.

(f) For repayable capital contributions of members in cooperatives, it could be misleading to delete 'expected' outflows from the definition of a liability. The repayment of the total share capital is a scenario of little relevance if the cooperative is a going concern.

(g) The word 'expected' removes the need to prove absolute certainty. Deleting that word could lead to a misunderstanding that no liability exists if measurement requires substantial estimation, as for insurance liabilities.

(h) Deleting 'expected' may lead to new differences from US GAAP.

32. Some respondents asked the IASB to clarify:

(a) at what point an economic resource that needs to be transformed becomes capable of producing economic benefits. For example, an information technology project may transform the effort of a workforce into software that is 'capable' of producing economic benefit. It would be useful to define

when the project becomes sufficiently capable of producing economic benefits.

(b) whether the notion of 'capable' refers to what would happen in line with the entity's strategies, or solely to external events that could differ from the entity's intentions.

(c) that the asset must be capable of producing economic benefits for the entity, and not only for other parties.

(d) whether capable still contains an implicit probability threshold.

33. A few respondents asked the IASB to clarify the meaning of the term 'capable', or replace it, for example by saying that the economic resource 'may' produce future economic benefits. They stated that the ambiguity of the term 'capable' makes it difficult to determine whether an acquisition is of a business or of assets.

Existence uncertainty

34. The Discussion Paper distinguished existence uncertainty from outcome uncertainty. Feedback in this area focused on whether:

(a) to distinguish existence uncertainty from outcome uncertainty (paragraphs 35–37).

(b) the *Conceptual Framework* should address existence uncertainty (paragraphs 38–41).

Distinguishing existence uncertainty from outcome uncertainty

35. Several commentators commented explicitly that it is useful to differentiate between existence uncertainty and outcome uncertainty.

(a) Referring to the distinction may acknowledge the variety of the practical limitations that constrain financial reporting, and may clarify thinking about how Standards might reflect particular circumstances.

(b) A discussion of the two kinds of uncertainty can assist management in decisions on how to deal with uncertainty in respect of recognition, measurement and disclosure. Similarly, if management differentiates

existence uncertainty from outcome uncertainty in explaining the judgements and assumptions made, that can aid users' understanding.

(c) When there is uncertainty about existence, it is hard to avoid some kind of probability test. The *Conceptual Framework* should acknowledge that a probability criterion is needed in the case of existence uncertainty, but not in the case of measurement uncertainty.

(d) If it is uncertain whether an asset or a liability exists, there needs to be some threshold for recognition. Without a threshold, assets and liabilities could be excluded if it is not completely certain whether they exist.

36. Some respondents stated that it can be difficult to distinguish the two types of uncertainties. Reasons for this difficulty include the following:

(a) It can be unclear what unit of account to consider. For example, in a tax dispute, it may not be clear whether the uncertainty relates to the outcome of the total tax liability or to the existence of a tax liability for the particular transaction in dispute.

(b) When the recognition of assets and liabilities is tied to the recognition of changes in assets and liabilities, the questions of existence uncertainty and outcome uncertainty are not separate.

37. The Discussion Paper stated that existence uncertainty is rare. Several respondents disagreed with this statement. Respondents suggested the following examples of existence uncertainty:

(a) Litigation. Several respondents feared that not dealing with existence uncertainty in the *Conceptual Framework* may lead to a reopening of the approach to litigation. They noted that many objected to the IASB's proposals on litigation in 2005 in its uncompleted project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(b) constructive obligations.

(c) cases where there is some doubt whether an entity controls a resource.

(d) non-monetary exchange transactions.

Should the Conceptual Framework address existence uncertainty?

38. Several respondents agreed that the *Conceptual Framework* should not set a probability threshold for cases when it is uncertain whether an asset or a liability exists. The IASB could decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.

39. Some respondents disagreed, stating that the *Conceptual Framework* should explain explicitly how to approach recognition when asset or liability existence is uncertain. They argued that:

    (a) deciding how to deal with existence uncertainty should be principle-based and should not vary by transaction.

    (b) dealing with existence uncertainty in individual Standards would lead to an unnecessary proliferation of Standards and to inconsistencies.

    (c) preparers need guidance for assets and liabilities that no Standard covers.

40. Some respondents suggested thresholds for existence uncertainty, including ‘virtually certain’, ‘probable’ and ‘more likely than not’. Views were mixed on whether any such threshold should:

    (a) apply symmetrically for assets and liabilities, and for gains and losses.

    (b) appear in the definitions or in the recognition criteria.

    (c) be the same for both existence uncertainty and outcome uncertainty (see paragraph 46 on thresholds for outcome uncertainty).

41. Other suggestions on existence uncertainty included:

    (a) The decision on how to deal with existence uncertainty should rest with the entity’s management, supported by an explanation of the judgements and assumptions made in the decision.

    (b) Exchange transactions between unrelated parties could give evidence that an asset exists.

    (c) Lack of evidence does not necessarily mean that the probability of existence is low. Strength of evidence is an auditing problem.

Outcome uncertainty

Background

42. As noted above, the Discussion Paper suggested deleting the existing recognition criterion that states that the inflow or outflow of resources should be probable. However, the Discussion Paper suggested that the *Conceptual Framework* should set out the following indicators that recognition might not provide relevant information:

    (a) if the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate.

    (b) if an asset (or a liability) exists, but there is only a low probability that an inflow (or outflow) of economic benefits will result.

Summary of feedback

43. Many respondents agreed that the recognition criteria should not retain the existing reference to probability. They argued that:

    (a) It would not be possible to construct probability thresholds that result in useful information for all types of assets and liabilities. The *Conceptual Framework* should not include probability thresholds, but should give guidance on how to construct probability thresholds and recognition criteria on a Standards level. This could explain when recognition is unlikely to be appropriate, and how uncertainty affects relevance and reliability.

    (b) Many uncertainties relate to measurement, and some are also questions of the appropriate unit of account. The remaining existence and recognition uncertainties are best dealt with in individual Standards.

    (c) Uncertainty should be reflected in measurement, not in recognition criteria. The use of expected values together with suitable disclosures about risk and uncertainty is capable of providing a faithful and useful representation.

    (d) Users need the most information about the most uncertain measurements. Uncertainty about future benefit flows is a measurement problem, not a recognition one. The traditional answer to uncertainty has been prudence in measurement, which, properly applied, has considerable merits for risk averse users and for accountability.

(e) Probability of outflow can be removed as a recognition criterion if the practical implications are addressed, particularly whether a meaningful measurement of liabilities is possible for single or low probability items that will be settled (rather than transferred). Problems in individual estimation situations should not be a barrier to recognition, if bulk estimation ameliorates those problems sufficiently.

(f) A probability threshold creates a cliff effect (on-off switch) at the threshold.

(g) A probability threshold means that some entities will recognise an asset or liability while some others faced with similar fact patterns will not. This might harm comparability.

(h) Any thresholds set by the IASB will prevent management from considering carefully how to present relevant information. Management should apply prudence, with a higher threshold for assets than for liabilities, and materiality.

44. Many other respondents argued that the recognition criteria should continue to refer to probability. They argued that:

(a) Probability has a significant effect on whether information is capable of faithful representation, and also on whether it is relevant. The probability criterion provides a practical and inexpensive ‘sense check’ to filter out items with low probability, which are not relevant to users and costly to identify and measure.

(b) Recognising assets and liabilities that have a low probability of generating inflows or outflows of economic benefits would:

(i) produce information that is not relevant to users, and is complex and less understandable, and lead to divergence in practice. Disclosures are more useful than a measurement that uses weighted averages or fair value;

(ii) require costly and perhaps complex systems, involve significant management time and judgement, and lead to an endless search for potential rights and obligations;

(iii) lead to frequent reversals in subsequent periods when the inflow or outflow does not occur. This will not provide relevant information.

(iv) result in a multitude of items being recognised at small amounts;

(v) lead to wider, and excessive, use of measurements based on expected value techniques, and of fair value measurements.

(vi) intensify measurement problems, because measurement may be sensitive to small changes in probability estimates and to the correlation of benefits or losses with returns from other items. This might lead to accounting that is imprudent, unreliable, difficult to verify and audit, and open to abuse. Some respondents had particular concerns about manipulation when preparers need to resort to the *Conceptual Framework* for guidance in areas that no Standard covers;

(vii) provide an illusion of ‘precision’ that does not exist. There is no faithful representation of a given probability (in the sense of something corresponding to the economic reality it purports to represent). There is only a calculated probability for which the assumptions, the estimated and actual numbers and the methods and calculations can be at best verified or at least judged to be reasonable.

(viii) lead to confusion until market practice drives the calibration of a new benchmark threshold at a new, but not necessarily better, equilibrium.

(ix) result in the recognition of some types of asset and liabilities that are not typically recognised today (outside business combinations). Some expressed concerns about particular items, such as various internally generated intangible assets, exploration projects by a mining entity, requirements to provide additional collateral if a rating downgrade occurs and, as noted in paragraph 37, litigation liabilities.

(c) Probability thresholds are important to continue to assist financial statement users to assess the uncertainty of accounting estimates.

(d) Retaining a probability threshold within the recognition criteria in the *Conceptual Framework* might lead to more consistent recognition decisions on the Standards level.

(e) The removal of the probability criterion would erode the accountant's professional judgment and replace it with a legalistic interpretation which may not reflect the substance of the underlying transactions.

(f) The Discussion Paper overstates the range of assets and liabilities that would be filtered from recognition by the existing probable criterion. For example, for an obligation to provide a service of standing ready to meet any insurance claim or warranty claim that may arise under a contract with a customer, the economic benefit is the provision of the service, not the payment or receipt of cash that may or may not occur ultimately.

(g) The notion that the probability threshold can be transferred from recognition to measurement is flawed as the choice of measurement model may influence whether an asset or liability is recognised.

45. Some respondents suggested a probability filter for some assets or liabilities, but not for all:

(a) Where a market price is available or well developed algorithms exist for calculating value, such as for most financial instruments, a probability filter would inappropriately exclude assets such as options.

(b) For non-financial assets, such as patents and research and development with nebulous benefits, a probability filter may be necessary. It is doubtful whether multiplying the estimated chance of success by the estimated pay off would provide a meaningful figure or more reliable information than relevant note disclosure.

(c) In considering whether to use a probability filter in a particular cases, relevant factors could include whether there is a large number of similar objects (for example, product warranties) or a single object (for example, a lawsuit), and the uncertainty in the probability amount of each outcome.

(d) It is not reasonable to remove the probability requirement from the recognition criteria simply to permit the recognition of options. It suffices to stipulate an exception for options in a particular Standard.

(e) Probability thresholds make sense for some assets such as deferred tax assets.

46. Some respondents suggested thresholds the IASB could consider adopting for outcome uncertainty. These include ‘probable’, ‘more likely than not’, ‘virtually certain’, and ‘reasonably possible’. Some drew attention to the wide range of such terms in existing Standards, and suggested that the IASB should reduce their number and define them more clearly. There were mixed views on whether any such thresholds should be applied symmetrically to assets and liabilities, and to gains and losses. (see also paragraph 40 on thresholds for existence uncertainty)

Recognition

47. This section deals with the following topics:

(a) Background (paragraphs 48–50)

(b) Should an entity recognise all its assets and liabilities? (paragraphs 51–59)

(c) Should the IASB keep the existing recognition criteria? (paragraphs 60–62)

(d) Relevance (paragraphs 63–67)

(e) Faithful representation (paragraph 68)

(f) Cost benefit (paragraph 69)

(g) Enhancing qualitative characteristics (paragraph 70)

(h) Reliability (paragraphs 71–77)

(i) Other comments (paragraph 78)

Background

48. The recognition criteria in the existing *Conceptual Framework* state that an entity recognises an item that meets the definition of an element if:

(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured with reliability.

49. The Discussion Paper suggests that an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant or is not sufficiently relevant to justify the cost; or

(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

50. Although the Discussion Paper suggests that the IASB should not retain reliable measurement as a separate recognition criterion, it does suggest that the *Conceptual Framework* could list the following as indicators that recognition might not provide relevant information:

(a) if the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate.

(b) if an asset (or a liability) exists, but there is only a low probability that an inflow (or outflow) of economic benefits will result.

(c) if identifying the resource or obligation is unusually difficult.

(d) if measuring a resource or obligation requires unusually difficult or exceptionally subjective allocations of cash flows that do not relate solely to the item being measured.

(e) if recognising an asset (particularly, internally generated goodwill) is not necessary to meet the objective of financial reporting.

Should an entity recognise all its assets and liabilities?

51. A few respondents suggested that an entity should recognise all its assets and liabilities, with no exceptions. They argued that this promotes consistency and conceptual integrity in financial reporting.

52. Most other respondents believed that it is neither relevant nor feasible for an entity to recognise all of its assets and liabilities. Completeness may be better served (as it is now) by disclosure (for example, of contingent assets and contingent liabilities) rather than by recognition. Some also stated that the purpose of the financial statements is not to show the reporting entity's value.

53. A few respondents suggested that the *Conceptual Framework* should not include departures from the general principle that an entity should recognise all assets and liabilities. If limited exceptions are needed, they can be considered at a Standards level, using existing concepts in Chapter 3 of the *Conceptual Framework*. An explicit exception in the *Conceptual Framework* is unnecessary and may suggest to some that those concepts can be applied only when explicitly referenced.

54. Others argued that the *Conceptual Framework* should provide criteria or guidance on when to recognise assets and liabilities, on the following grounds:

    (a) delegating these decisions to specific Standards may lead to inconsistencies between Standards and create rules rather than principles.

    (b) the *Conceptual Framework*'s guidance on recognition should be available for use not just by the IASB, but also by preparers and others who need guidance on when to recognise an asset or liability that no Standard covers. There should be no concerns about preparers using this guidance because the *Conceptual Framework* cannot override recognition criteria in Standards.

55. Some respondents commented that the *Conceptual Framework* should include general high-level recognition principles. Individual Standards should contain only exceptions, and applications of the general principles in particular cases, which depend greatly on the nature of the asset and the unit of account.

56. Some respondents also commented on:

(a) whether recognition should be the default position if not all assets and liabilities are required to be recognised (paragraphs 57–58); and

(b) whether to prohibit recognition in some cases (paragraph 59).

Recognition as default?

57. A few respondents indicated that recognition of all assets and liabilities should be the default approach. They argued that, if the definitions of the assets and liabilities are valid, there must be a presumption to recognise all items that meet those definitions.

58. A few other respondents stated that the *Conceptual Framework* should call for a genuine assessment of relevance and reliability and should not include a rebuttable presumption that all assets and liabilities should be recognised. They indicated that relevance and faithful representation are not sufficiently robust as recognition criteria and are very subjective: as a result, they are likely to be neglected in Standard-setting.

Should recognition be prohibited in some cases?

59. The Discussion Paper stated that the IASB might (but need not) decide that an entity need not, or should not, recognise an asset or a liability, when the result of recognising it does not pass the tests of relevance and faithful representation. A few respondents commented that the IASB should:

(a) prohibit recognition in such cases.

(b) explicitly justify any decision to depart in a particular Standard from the recognition criteria in the *Conceptual Framework*.

(c) review whether the recognition criteria in existing Standards comply with the revised *Conceptual Framework*.

Should the IASB keep the existing recognition criteria?

60. Some respondents favoured keeping both of the existing requirements: (1) that it is probable that the economic benefits will flow to / from the entity and (2) that reliable measurement is possible. They argued that:

(a) The IASB's analysis shows that recognition criteria need to link recognition to relevance and faithful representation. The recognition criteria in the

current *Conceptual Framework* achieve that (see comments in paragraphs 28–46 for probability and 71–77 for reliability). Nothing in the Discussion Paper explained a need to change the existing recognition criteria.

(b) The proposed recognition criteria are not sufficiently objective or substantive to be a useful tool to enable the IASB to produce consistent solutions at the Standards level. They are vague, require a high degree of judgement and are likely to lead to diversity in practice.

(c) The principles underlying the guidance in paragraphs 4.25 and 4.26 of the Discussion Paper could be used to develop more robust recognition filters than those suggested in the Discussion Paper. The filters could address the availability of reliable measurement methods and include a probability test.

61. Some respondents favoured the recognition criteria suggested in the Discussion Paper, on the following grounds:

(a) Relevance and faithful representation should be the prime drivers in deciding whether an asset or liability should be recognised. The cost of providing information should also be a relevant factor.

(b) The probability threshold can be removed from the *Conceptual Framework* if sufficient weight is given to criteria of faithful representation and cost efficiency to prevent measurement methods having to be developed for low probability items when it is clear that the benefits will not justify the cost.

(c) It would have been preferable to point out a clearer and more robust direction for future Standard setting, but this would require much more work. A clear direction would also increase the gap between the new *Framework* and existing Standards. Thus, the solution proposed by the IASB is appropriate.

(d) The proposed recognition criteria are an improvement over the recognition criteria in the existing *Conceptual Framework*, since they would be likely to lead to the recognition of more assets and liabilities. This should, in theory, provide relevant information about, and a more faithful representation of, an entity's resources and obligations as well as the changes in these items.

62. The following paragraphs discuss various aspects of the recognition approach suggested in the Discussion Paper:

    (a) Relevance (paragraphs 63–67)

    (b) Faithful representation (paragraph 68)

    (c) Cost benefit (paragraph 69)

    (d) Enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) (paragraph 70)

    (e) Reliability (paragraphs 71–77)

    (f) Other comments (paragraph 78)

Relevance

63. Some respondents supported the proposal to include relevance as a recognition criterion, on the following grounds:

    (a) If recognition results in information that is not relevant for decision making, there is no reason to go through the cost and effort to recognise the assets or liabilities.

    (b) Recognition is not appropriate when the uncertainty about inflows or outflows of economic benefits makes an item so difficult to measure that recognising it does not result in relevant information.

64. Some respondents opposed relevance as a recognition criterion, on the following grounds:

    (a) The conceptual basis of the definitions of assets and liabilities is to provide information that is relevant. It is difficult to envisage how recognising an asset or liability could provide information that has no relevance to a user.

    (b) The question of relevance is not about whether to recognise an asset, it is rather about how to measure the recognised asset in a way that results in information relevant to users' decisions.

    (c) The challenge is how to define 'information that is relevant', and from whose perspective.

(d) The Discussion Paper suggests that one case that fails the relevance test is when information is incomplete or hard to understand, for example if related assets and liabilities are not recognised. The answer is to produce complete information in an understandable form, not to omit the item.

(e) The test of 'relevant information' may lead to the recognition of items that may more appropriately be dealt with in notes or supplementary reporting, such as some intangible items and goodwill.

(f) The judgemental decision on usefulness of the information should not be at the discretion of the entity. The entity should make best efforts to disclose all necessary descriptions and explanations, and not attempt to pre-determine what would be useful for users.

65. A few respondents provided other comments on relevance:

(a) The consideration of relevance needs to refer specifically not only to the asset or liability but also to income or expenses resulting from changes in the asset or liability. Priority should be given to data types that users consider most important. There needs to be more focus on how to provide relevant information about future income and expense, and cash flows, by deciding when to recognise assets and liabilities, and how to measure them.

(b) Relevance means different things for different items. For example, the recognition of financial assets provides users with information to help predict future cash flows. For non-financial assets, users might look for information about how the entity is using its resources and its return on capital. These different objectives might necessitate different recognition guidance for different elements.

Indicators of lack of relevance

66. As noted in paragraph 50, The Discussion Paper suggests that the *Conceptual Framework* could set out indicators of cases when recognising an asset or liability would not provide relevant information. Respondents provided the following comments on this suggestion:

(a) If the *Framework* is to give lack of relevance as a reason for non-recognition, it would be essential to include guidance along the lines of these indicators. These factors capture much, perhaps all, of the essential ideas of a low probability of flow and lack of reliable measurement, but without requiring that they would, in and of themselves, prevent recognition. One consequence is that questions of 'how probable is probable?' and 'how reliable is reliable?' will be addressed in individual Standards. Some may see this as an advantage as these issues are likely to be more tractable at the level of Standards. Others may consider that these should be dealt with in the *Framework* for greater consistency.

(b) For financial statements to assist in assessing management's stewardship, it may be relevant to recognise assets that have been purchased even if similar assets that have been internally generated are not recognised. This might most often arise for intangibles such as computer software, or for goodwill.

(c) It is useful to explain how the qualitative characteristics might be applied in recognition. However, indicators are not necessary to achieve this, and the proposed indicators cause concerns:

   (i) It is not clear how the indicators relate to relevance. For example, the indicators about measurement uncertainty seem to focus on faithful representation. Although information might not be relevant if no measure provides a faithful representation, uncertainty is not a measure of relevance.

   (ii) Probability could influence a decision on relevance, faithful representation and cost benefit. The indicators do not explain how probability is relevant for this assessment.

   (iii) The reference to low probability might be mistaken for a threshold, although the IASB does not propose a threshold.

   (iv) The list of indicators, and related examples, focus on assets, but should also address liabilities and executory contracts.

   (v) The indicator about meeting the financial statement objectives is not useful because it applies only to internally generated goodwill. Internally generally goodwill should not be recognised, but this is because it cannot be reliably measured

rather than because it is not relevant to recognise it. Also, any exception for internally generated goodwill should be at the Standards level, not in the *Conceptual Framework*.

(d) The *Conceptual Framework* should explain when uncertainty is so significant that recognition is not likely to occur.

67. A few respondents highlighted that the Discussion Paper focuses on one particular aspect of relevance: when the level of uncertainty in an estimate is so large that the reliability of the estimate and its relevance is questionable. They suggested that this overlaps with the question of whether a sufficiently faithful representation exists.

Faithful representation

68. A few respondents commented on faithful representation:

(a) If recognising an asset or a liability would provide relevant information, the Discussion Paper indicates that recognition could not fail to result in a faithful representation (if disclosure is adequate). Thus, a separate criterion referring to faithful representation would be redundant. However, a more careful description of faithful representation might make it more useful and justify its use in the criteria.

(b) The discussion of faithful representation in paragraphs QC15-QC16 of the existing *Conceptual Framework* seems to show that any measurement basis could provide a faithful representation (if supporting disclosures are adequate). Given this, it is difficult to see how faithful representation could serve as a recognition criterion.

(c) A faithful representation may be possible for a portfolio, even if it is not possible for an individual item (for example, future life insurance for a named individual).

Cost benefit

69. The Discussion Paper suggested that, if recognising an asset or liability would provide information that is not sufficiently relevant to justify the cost, the IASB might not require (or might prohibit) its recognition. Respondents generally did not object to

the notion that the cost constraint should play a role in recognition decisions. A few respondents commented on the specific suggestions in the Discussion Paper:

(a) The cost constraint relates to both relevance and faithful representation, not just to relevance.

(b) The cost constraint should be considered in this assessment, but should not be mentioned specifically in the recognition criteria. The overarching concept is already included in the *Framework* and is pervasive.

(c) It is not appropriate to introduce the notion of information that is 'not sufficiently relevant to justify the cost'. The cost of producing information does not affect its relevance. The IASB should distinguish the most relevant information and the information that best meets the cost benefit criterion. A change in technology might alter the cost benefit decision.

(d) The cost constraint is a valid consideration for immaterial items but is likely to be a measurement problem rather than a recognition problem.

Enhancing qualitative characteristics

70. The Discussion Paper identified no need for recognition criteria relating to the enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. A few respondents commented on this conclusion:

(a) The enhancing qualitative characteristics are important ingredients in the relevance and usefulness of information. The IASB has not put forward a convincing argument to exclude them from the recognition criteria.

(b) Lack of comparability arises if in a business combination entities recognise assets or liabilities (for example, some long-term contracts such as life insurance) that otherwise are not recognised, or are measured differently.

(c) If reliable measurement is not retained as an explicit recognition criterion, verifiability may need more emphasis (see paragraphs 75–76).

Reliability

71. Some respondents suggest that the IASB should retain reliability of measurement as an explicit measure criterion. One user representative group commented:

> This is all very confusing! We certainly agree that financial statements should not include information 'if the level of uncertainty in the estimate is too large' (section 4.9; see also 4.26). Investors cannot rely upon such information. Indeed if such information is introduced in financial statements, investors will not know what information to trust (even if estimation uncertainty is disclosed in footnotes). Unreliable information will pollute the whole communication process.
>
> The confusing part is the terminology. The issue we are talking about here is reliability of information (to everyone but the IASB?). In the face of universal opposition (including the ICGN), the Board in 2010 removed the term 'reliability' from the Conceptual Framework and replaced it by 'faithful representation'. Ever since, representatives of the IASB have said repeatedly that this is just a change of wording. Faithful representation is supposed to mean the same thing as reliability. Now, the IASB will have to admit that this is not the case. Reliability is suddenly part of relevance.
>
> This raises another issue: If estimation uncertainty is not an aspect of faithful representation, what does faithful representation mean in the current context? No one seems to know the answer to this question. Since we do not understand what it means for a measure to be a faithful representation, we are unable to comment on part (b) in question 8. We note that the document does not include any examples of measurements that are not faithful representations of assets or changes in assets. Such examples would certainly be helpful.
> *International Corporate Governance Network*

72. Other proponents of retaining reliability as a recognition criterion provided the following arguments:

(a) Some elements of reliability exist in relevance and faithful representation. However, reliability is a more robust term, which the IASB could define clearly to avoid confusion in its application, and would provide a stronger basis for determining whether assets and liabilities should be recognised.

(b) Reliability is as important as relevance. Sometimes measurement uncertainty is so great that disclosure alone may be more appropriate than recognition. Requiring the recognition of items (or use of measurement bases) with a high degree of estimation uncertainty will confuse users and obscure financial performance, add costs and complexity for preparers, and result in information that is challenging to audit. This contributes to disclosure overload. Disclosures cannot compensate for large margins of errors in measurement, ie for the unreliability of measurement.

(c) Reliability is a key element of faithful representation. The *Conceptual Framework* should state explicitly that no measure will result in a faithful representation if it is not capable of reliable measurement.

(d) If reliability is replaced by faithful representation (defined as complete, neutral and free from error), anything will go as long as you can defend it using the faithful representation or relevance (decision-usefulness) argument. This opens the door to discretionary recognition of income and expenses caused by market price changes that have little to do with the entity's financial performance from a current operating perspective.

(e) Although the *Conceptual Framework* no longer defines reliability, there is no reason why the recognition criteria cannot still use that term.

73. Many respondents did not comment explicitly on whether to retain reliable measurement as a recognition criterion. Some respondents explicitly opposed its retention. One respondent stated that it is difficult to measure many assets and liabilities that should not be recognised in financial statements, but this is also the case for some for which recognition is appropriate, such as pension deficits or life insurance liabilities. Some favoured the recognition criteria suggested in the Discussion Paper for reasons given in paragraph 61, but did not comment explicitly on reliability.

74. The following paragraphs discuss two notions linked to reliability: verifiability (paragraphs 75–76) and prudence (paragraph 77).

Verifiability

75. Some respondents suggested that if the recognition criteria do not retain the existing reference to reliability, the remaining recognition criteria must be robust enough to ensure a minimum level of verifiability of recognised assets and liabilities. Thus, the enhancing qualitative characteristic of verifiability should play a role.

76. A few respondents provided other comments on verifiability:

(a) For an option, the existence of a contract that specifies the details of the contingency, and advanced valuation techniques in option pricing, ensure some minimum level of verifiability, even if there is only a remote possibility of a cash flow. Many other assets or liabilities lack this feature, for example if there is uncertainty about future states of nature that are not clearly defined in a contract (such as uncertainty about future regulation).

(b) The Discussion Paper states that although the term reliability no longer appears in the *Conceptual Framework*, 'much of that concept is covered by the existing *Conceptual Framework*'s fundamental characteristic of faithful representation and its enhancing characteristic of verifiability'. Verifiability, and implicitly enforceability, could be the starting point for further recognition criteria.

Prudence

77. A few respondents suggested that prudence should play a role in recognition, on the following grounds.

(a) More caution needs to be applied in recognising assets than liabilities. This will improve the quality of financial reports for users and act as a barrier to a potential over-confident bias by preparers.

(b) Timely recognition is more relevant for losses than for gains.

(c) The role of uncertainty interacts with prudence. For example, IAS 37 states that it is extremely rare that a provision cannot be measured reliably.

However, for internally generated intangible assets, the preparer must demonstrate that cost can be measured reliably.

Other comments

78. A few respondents made other comments on recognition:

(a) The *Conceptual Framework* should set recognition criteria not just for assets and liabilities, but also for equity instruments, and for income and expenses.

(b) If the business model plays a role in recognition, an asset could be recognised by some entities and not recognised by others. For example:

(i) a forward contract to buy coal might be an unrecognised executory contract for an energy producer, but might be a recognised financial instrument for a commodities trader.

(ii) an item which is a specific bundle of rights to one entity with a trading business model may represent a different bundle of rights to another entity with a held-for-use business model.

(c) A distinction needs to be made at a Standards level between recognition at a carrying amount of nil and non-recognition.

(d) There needs to be some disclosure of all assets and liabilities even if they do not qualify for recognition.

(e) Any change to recognition and derecognition should not trigger more disclosure requirements.

(f) For stand-ready obligations that create an exposure to an imminent event that may not occur, recognition overlaps with measurement. For example, consider insurance against an impending windstorm that has not yet occurred. Is this a recognition issue (recognition of possible future losses) or a measurement issue (measurement of the existing obligation)?

(g) Academic research suggests that differences exist in how capital market participants view recognised versus disclosed information. This has been attributed to various reasons including processing costs of footnote

disclosures, reliability or quality of information, and behavioural biases. However, the research has limited direct evidence on the relevance of recognised versus disclosed items. Research on faithful representation is also scarce.

(h) The Discussion Paper set out a proposed objective of measurement in terms of the *Framework's* overall objective of financial reporting. The approach to recognition should be explained and developed in the same way, rather than going directly to the qualitative characteristics.

Other elements

79. This section covers:

(a) the definitions of income and expenses (paragraphs 80–83);

(b) guidance on distinguishing revenue from gains, and expenses from losses (paragraphs 84–85);

(c) suggestions to define separate elements for 'profit or loss' and 'other comprehensive income' (OCI) (paragraphs 86–90); and

(d) elements of the statement of cash flows and the statement of changes in equity (paragraphs 91–96).

The definitions of income and expenses

Background

80. The existing *Conceptual Framework* identifies income and expenses as the elements of the statement(s) of profit or loss and OCI. It defines them in terms of changes in assets and liabilities. The Discussion Paper considered aspects of the definitions but did not suggest any major changes.

Summary of feedback

81. A consequence of not changing the definitions is that income and expenses would still be defined in terms of changes in assets and liabilities. This consequence prompted debate in Europe on the priority given to the statement of financial position.

82. Some European respondents (mainly preparers) concluded that the definitions give undue priority to the statement of financial position, undermining the assertion in the Discussion Paper that 'no primary financial statement has primacy over the other primary statements'. Some questioned whether the resulting 'balance sheet' approach gives more useful information than an 'income statement' approach, which focuses on matching costs to revenues. They suggested that the IASB should reconsider the approach, arguing that:

(a) financial performance has more to do with transactions, cash flows and allocations of cash flows over time, than with changes between opening and closing balance sheets.

(b) investors are not interested only in the reporting of economic value, but also in information used by management for decision-making, including historical cash flows, and particularly when going concern or liquidity has been an issue.

83. However, EFRAG, and other European respondents (preparers and national standard-setters) arrived at a different conclusion:

> 19 … some believe that defining income and expenses based on changes in assets and liabilities results in the statement(s) of profit or loss and other comprehensive income being secondary to the statement of financial position. EFRAG does not share this view, as further explained in the Bulletin on the asset/liability approach.[1] Defining income and expenses based on changes in assets and liabilities does not conflict with the objective of producing useful performance figures and it does not mean that the statement of financial position is more important than the statement(s) of profit or loss and other comprehensive income.
>
> 20 As further explained in the Bulletin on the asset/liability approach, EFRAG thinks that the asset/liability approach has some merits compared to a matching approach. Focusing on changes in assets and liabilities, in EFRAG's view, provides

[1] The Bulletin was issued by EFRAG together with national standard-setters in France, Germany, Italy and the UK. Not all these parties share EFRAG's preliminary view on this issue. The Bulletin explains the different views.

greater clarity for the development of accounting Standards.
EFRAG

Guidance on distinguishing revenue from gains, and expenses from losses

Background

84. The existing *Conceptual Framework* identifies two categories of income (revenue and gains) and two categories of expenses (losses and expenses that arise in the ordinary course of business). The Discussion Paper considered whether to define those four categories as separate elements, and clarify the differences between them. But the IASB reached a preliminary view that this matter would best be considered in a project on financial statement presentation, and so stated that it intends to leave the discussion in the existing *Conceptual Framework* largely unchanged.

Summary of feedback

85. There was relatively little feedback on that preliminary view. Several respondents stated that the existing guidance is of little use and that aspects of it are confusing or illogical. However, there were different views on the most appropriate action:

    (a) some respondents—mainly preparers—agreed that any improvements in this area should be made in a project on financial statement presentation, and the guidance in the *Conceptual Framework* should remain largely unchanged in the meantime.

    (b) other respondents suggested that improvements should be made to the *Conceptual Framework*, establishing guiding principles for any future work on presentation. A few respondents connected with the insurance sector suggested that a better definition of revenue would help the IASB reach conclusions on how to classify various types of income earned by insurers. A few respondents argued that not providing precise definitions appears to relegate the statement of profit or loss and OCI to second place behind the statement of financial position.

    (c) a few respondents suggested removing the existing guidance from the *Conceptual Framework* because it concerns presentation, rather than defined elements. Specific guidance would be better placed in IAS 1.

Suggestions to define separate elements for 'profit or loss' and 'OCI'

Background

86. The Discussion Paper discussed whether the revised *Conceptual Framework* should define separate elements for income and expenses presented in profit or loss, and income and expenses presented in OCI. The IASB reached a preliminary view that the revised *Conceptual Framework* should instead provide presentation guidance on this topic, as further discussed in Section 8 of the Discussion Paper.

Summary of feedback

87. Some respondents agreed with this view. A few said that defining items that make up profit or loss is conceptually challenging and that previous attempts have not succeeded.

88. Other respondents disagreed with the preliminary view:

    (a) Some suggested that 'profit or loss' and 'OCI' should replace income and expenses as the defined elements: the elements should be identified by reference to the objectives of financial reporting, and providing information about performance is one of the main objectives stated in Chapter 1 of the *Conceptual Framework*.

    (b) Others argued that defining items that should be reported in profit or loss (or performance), and establishing how to deal with non-performance changes in assets or liabilities, would relieve tensions created by defining income and expenses in terms of changes in assets and liabilities.

89. Respondents who thought that profit or loss and OCI should be defined elements tended to do so as part of their overall views on ways of distinguishing profit or loss items from OCI items. So their comments are considered in more detail in Agenda Paper 10I *Feedback summary: presentation in the statement of comprehensive income—profit or loss and other comprehensive income*.

90. A few respondents suggested that, until the IASB has concluded its work on the distinction between profit or loss and OCI, it was premature to reach a decision on defining elements for the statement(s) of profit or loss and other comprehensive income.

Elements of the statement of cash flows and the statement of changes in equity

Background

91. The existing *Conceptual Framework* does not identify or define elements of the statement of cash flows or of the statement of changes in equity.

92. The Discussion Paper identified elements for those statements, but did not suggest specific definitions.

93. The Discussion Paper asked respondents whether the revised *Conceptual Framework* should identify elements of these statements.

Summary of feedback

94. Approximately one third of respondents (mainly standard-setters, accountancy bodies and academics) addressed this topic in their comment letters. Their responses tended to be brief.

95. Some respondents thought that definitions would be helpful—particularly for the statement of changes in equity.

96. However, others thought that defining such elements was unnecessary or not a priority. They argued that items presented in these statements are well understood and lack of definitions in the *Conceptual Framework* has not given rise to problems in practice. Some argued that cash flows are described in the relevant Standard, so nothing is to be gained by defining movements in cash as separate elements.

97. The reference to cash flow statements prompted a few respondents to ask for improvements in the presentation of cash flows, particularly for financial institutions.