

STAFF PAPER

May 2014

REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Cover paper		
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Purpose of this meeting

1. At this meeting we are planning to discuss:
 - (a) the definitions of an asset and a liability;
 - (b) recognition criteria;
 - (c) approach to defining income and expense;
 - (d) reporting entity (including the perspective from which the financial statements should be prepared);
 - (e) possible changes to Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information* of the existing *Conceptual Framework*; and
 - (f) going concern.
2. This paper describes:
 - (a) the papers for this meeting, including an overview of recommendations in each paper;
 - (b) the decisions taken by the IASB so far; and
 - (c) next steps.

Papers for this meeting

3. At this meeting we would like to discuss the papers summarised in the table below. Each paper includes a discussion of the issues, staff analysis and recommendations, and questions for the IASB.

AP	Title	Content
10A	Elements of financial statements: definitions of assets and liabilities	<p>This paper discusses the definitions of an asset and a liability.</p> <p>The staff recommend that the IASB should:</p> <ul style="list-style-type: none"> (a) confirm the following definitions, which are the same as the definitions proposed in the Discussion Paper, with one exception noted in (b) below: <ul style="list-style-type: none"> (i) asset of an entity: a present economic resource controlled by the entity as a result of past events; (ii) liability of an entity: a present obligation of the entity to transfer an economic resource as a result of past events; (iii) economic resource: a right that is capable of producing economic benefits; (b) delete the phrase ‘or other source of value’ from the definition on an economic resource that was proposed in the Discussion Paper.
10B	Recognition	<p>This paper discusses recognition.</p> <p>In the paper, the staff recommend that the <i>Conceptual Framework</i> should not include explicit recognition criteria. Instead, it should provide a narrative discussion of the thought process to go through in making recognition decisions.</p>
10C	Elements – approach to defining income and expense	<p>This paper discusses the approach to defining income and expense in the revised <i>Conceptual Framework</i>.</p> <p>The staff recommend that the <i>Conceptual Framework</i> should continue to define income and expense by reference to changes in assets and liabilities.</p>
10D	Reporting entity – General	<p>This paper discusses the following issues related to the reporting entity:</p> <ul style="list-style-type: none"> (a) description of a reporting entity; (b) control of an entity; (c) joint control and significant influence; (d) boundaries of a reporting entity, unconsolidated financial

AP	Title	Content
		<p>statements and consolidated financial statements; and</p> <p>(e) combined financial statements and dual listed companies.</p> <p>The appendix to the paper includes a preliminary draft of the Reporting entity section for inclusion in the forthcoming Exposure Draft of the <i>Conceptual Framework</i>.</p>
10E	Reporting entity – Perspective	<p>This paper discusses the perspective from which financial statements should be prepared.</p> <p>In the paper, the staff recommend that the IASB should confirm its view that financial statements should be prepared from the perspective of the entity as a whole.</p>
10F	Going concern	<p>This paper discusses how the going concern assumption should be incorporated into the revised <i>Conceptual Framework</i>.</p> <p>The staff recommend that:</p> <ul style="list-style-type: none"> (a) the going concern assumption should continue to be treated as an underlying assumption; (b) the IASB should not provide further guidance on the going concern assumption in the <i>Conceptual Framework</i>.
10G	Stewardship	<p>The purpose of this paper is to discuss whether Chapter 1 <i>The objective of general purpose financial reporting</i> of the <i>Conceptual Framework</i> should give more prominence to the idea that financial statements should provide information to help users assess the stewardship of management.</p> <p>The staff recommend that Chapter 1 should be amended to increase the prominence of stewardship within the overall objective of financial reporting by identifying the information needed to assess the stewardship of management as separate from the information needed to help users assess the prospects of future net cash inflows to the entity.</p>
10H	Reliability	<p>The purpose of this paper is to discuss whether to include reference to reliability in Chapter 3 <i>Qualitative characteristics of useful financial information</i> of the <i>Conceptual Framework</i>.</p> <p>The staff do not recommend:</p> <ul style="list-style-type: none"> (a) replacing the qualitative characteristic of faithful representation with reliability; (b) including reference to reliability as either an additional qualitative characteristic or an aspect of either relevance or faithful representation.

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10I	Prudence	<p>This paper discusses whether and, if so, how to reintroduce the notion of prudence into the <i>Conceptual Framework</i>.</p> <p>The staff recommend:</p> <ul style="list-style-type: none"> (a) reintroducing a reference to prudence in the <i>Conceptual Framework</i>; (b) describing prudence as the exercise of caution when making judgements under conditions of uncertainty to ensure that assets or income are not overstated and liabilities or expenses are not understated; (c) discussing in the Basis for Conclusions the need for: <ul style="list-style-type: none"> (i) preparers to exercise prudence in preparing financial statements; and (ii) the IASB to exercise prudence when setting standards; (d) explaining that prudence is consistent with neutrality and does not allow for the deliberate overstatement of liabilities or expenses or understatement of assets or income.
10J	Chapters 1 and 3 – Other possible changes	<p>This paper discusses whether to make changes to Chapter 1 <i>The objective of general purpose financial reporting</i> or Chapter 3 <i>Qualitative characteristics of useful financial information</i> of the <i>Conceptual Framework</i>.</p> <p>The staff:</p> <ul style="list-style-type: none"> (a) recommend amending Chapter 3 to explain that, when the legal form of an item is different from its underlying economic substance, reporting that item in accordance with its legal form would not result in a faithful representation; (b) do not recommend: <ul style="list-style-type: none"> (i) making any changes to the description of the primary user group identified in Chapter 1; (ii) elevating understandability from an enhancing qualitative characteristic to a fundamental qualitative characteristic; (iii) adding a discussion of complexity to the <i>Conceptual Framework</i>.

Current status of the project

4. The appendix to this paper provides a summary of the tentative decisions made so far in the course of redeliberations on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.

Next steps

5. At the June meeting we plan to discuss:
- (a) elements for the statement of cash flows and statement of changes in equity;
 - (b) additional guidance on definitions of an asset and a liability;
 - (c) executory contracts;
 - (d) the distinction between liabilities and equity;
 - (e) presentation and disclosure;
 - (f) initial thoughts on presentation in the statement of comprehensive income – profit or loss and other comprehensive income;
 - (g) business model; and
 - (h) unit of account.

Appendix – Summary of tentative decisions to date

Section of DP	Date	IASB tentative decision
Strategy	April 2014	<p>IASB tentatively approved the proposed strategy and timetable for redeliberations of the <i>Conceptual Framework</i>.</p> <p>In addition:</p> <p>On the distinction between liabilities and equity, the IASB tentatively decided that the <i>Conceptual Framework</i>:</p> <ul style="list-style-type: none"> (a) should keep the existing binary distinction of liabilities and equity and build on the feedback received on the DP to develop definitions of liabilities and equity; and (b) should not provide detailed guidance on how to distinguish liabilities from equity instruments. <p>On measurement, the IASB tentatively decided to build on the proposals in the DP, modified in the light of the feedback received, rather than undertaking further research on measurement.</p> <p>On presentation in the statement of comprehensive income, the IASB directed the staff to develop an approach which would emphasise the role of profit or loss as the primary source of information about an entity's performance and would provide high level guidance to the IASB on how it could use other comprehensive income.</p>
Introduction Purpose and status of the <i>Conceptual Framework</i>	April 2014	<p>IASB tentatively decided that:</p> <ul style="list-style-type: none"> (a) the purpose of the <i>Conceptual Framework</i> should be to identify concepts that: <ul style="list-style-type: none"> (i) assist the IASB to develop and revise the Standards; (ii) assist preparers to develop accounting policies when no Standard applies to a particular transaction; (iii) assist all parties to understand and interpret the Standards. (b) the existing status of the <i>Conceptual Framework</i> should be retained – that is, the <i>Conceptual Framework</i> is not a Standard and does not override the requirements of specific Standards. (c) preparers should not be restricted from applying particular aspects of the <i>Conceptual Framework</i>. (d) in a limited number of cases, the IASB may depart from aspects of the <i>Conceptual Framework</i>. If it does so, the IASB will explain the departure in the Basis for Conclusions on the Standard in question.