

## STAFF PAPER

September 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 distinction between liabilities and equity;
  - (b) remaining aspects of measurement; and
  - (c) implications of long-term investment.
2. This paper describes:
  - (a) the papers for this meeting, including an overview of recommendations; and
  - (b) next steps.

**Papers for this meeting**

3. Agenda Paper 10A provides a summary of tentative decisions made so far in the course of deliberations on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the 'Discussion Paper'). It is provided for information purposes only and we do not plan to discuss it at the meeting.
4. The papers that we would like to discuss at this meeting are summarised in the table below.

AP	Title	Content
10B	Measurement – Measurement bases	<p>The purpose of this paper is to provide a revised working draft of the description and discussion of measurement bases for the <i>Conceptual Framework</i> Exposure Draft following the discussion of the topic in July 2014.</p> <p>Appendix A to this paper provides a revised working draft of the description and discussion of measurement bases, reflecting the following changes to the previous draft:</p> <ul style="list-style-type: none"> <li>(a) Categorized measurement bases as entry values or exit values.</li> <li>(b) Combined replacement cost and assumption proceeds into the description of a single measurement basis (current cost). Similarly, the staff have combined historical cost and historical proceeds into a single measurement basis (historical cost).</li> <li>(c) Removed the description of cost of release.</li> <li>(d) Incorporated the following into the description of the measurement bases: <ul style="list-style-type: none"> <li>(i) the discussion of the difference between historical and current measurement bases;</li> <li>(ii) the discussion of entity perspective or market perspective.</li> </ul> </li> <li>(e) Moved the tables describing the information provided by the different measurement bases to an appendix.</li> <li>(f) Identified situations when the application of different measurement bases result in similar measurements.</li> </ul> <p>Appendix B to this paper includes a working draft for the description of cash-flow-based measurement techniques based on the text of the Discussion Paper, updated to reflect the tentative decisions made in July 2014 about cash-flow-based measurement techniques.</p>
10C	Measurement – Selection of a measurement basis	<p>The purpose of this paper is to discuss the guidance that should be included in the <i>Conceptual Framework</i> Exposure Draft on the selection of a measurement basis.</p> <p>In this paper the staff recommend that the Exposure Draft should state that:</p> <ul style="list-style-type: none"> <li>(a) consideration of the objective of financial reporting, of the qualitative characteristics of useful information and of the cost benefit constraint is likely to result in the IASB selecting different measurement bases for different assets and liabilities.</li> </ul>

AP	Title	Content
		<p>(b) the relevance of a particular measurement will depend on how, in the likely assessment of investors, creditors and other lenders, an asset or a liability will contribute to future cash flows. Consequently, the selection of a measurement should depend on how an asset or liability will contribute to future cash flows;</p> <p>(c) how an asset or liability contributes to future cash flows is only one of the factors that need to be considered when selecting a measurement basis.</p> <p>(d) the relative importance of each of the factors to be considered when selecting a measurement basis will depend upon facts and circumstances.</p> <p>(e) the way in which an entity conducts its business activities should be considered when deciding how an asset or liability contributes to future cash flows. The <i>Conceptual Framework</i> need not (and should not) refer explicitly to any particular business activity, such as long-term investment.</p> <p>(f) one measurement basis is appropriate for the statement of financial position and a different measurement basis is appropriate for the statement of profit or loss when such an approach better reflects the business activities of the entity. This might be the case:</p> <ul style="list-style-type: none"> <li>(i) when the IASB concludes that a current measurement basis provides relevant information in the statement of financial position, but that including a component of the change in the current measurement in OCI allows the entity to provide useful information about an aspect of the entity’s business activities in profit or loss;</li> <li>(ii) when there is more than one way in which asset or liability is likely to contribute to future cash flows.</li> </ul> <p>(g) the nature of an asset or liability (for example, the nature or extent of the variability in the item’s cash flows, the sensitivity of the value of the item to changes in market factors or other risks inherent in the item) is one of the factors that should be considered when selecting a measurement basis.</p>
10D	Measurement – Use of a single or default measurement basis	<p>The purpose of this paper is to:</p> <ul style="list-style-type: none"> <li>(a) describe the approaches suggested by respondents which would require the use of a single or default measurement basis; and</li> <li>(b) discuss their advantages and disadvantages.</li> </ul>

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		<p>Given the IASB’s tentative decision not to develop in detail these approaches, this paper is primarily for information only. However, at the end of the paper the IASB is asked to consider whether the discussion in this paper causes them to reconsider their decision not to develop these approaches further.</p>
10E	Measurement – Initial measurement	<p>The purpose of this paper is to discuss what the <i>Conceptual Framework</i> should say about initial measurement.</p> <p>This paper proposes a number of minor changes to the discussion of initial measurement that was included in the Discussion Paper. In particular, the staff propose to clarify that although, in general, the measurement basis used subsequently should be the same as, or at least consistent with the measurement basis used initially, this should not prevent:</p> <ul style="list-style-type: none"> <li>(a) current values being used in some circumstances as a deemed cost on initial measurement;</li> <li>(b) a change in measurement bases if such a change increases the relevance of the information provided.</li> </ul>
10F	Implications of long-term investment for the <i>Conceptual Framework</i>	<p>The purpose of this paper is to assess whether the <i>Conceptual Framework</i> will provide the IASB with sufficient and appropriate tools to enable it to consider the following questions when it makes standard-setting decisions in particular projects:</p> <ul style="list-style-type: none"> <li>(a) Does the time horizon for investments by the reporting entity have any implications for standard-setting decisions? For example, is it a relevant factor to consider in selecting a measurement basis for those investments?</li> <li>(b) Do long-term investors in a reporting entity need different information from short-term investors? If so, does that have implications for standard-setting decisions?</li> </ul> <p>In relation to long-term investment, the staff conclude in this paper that:</p> <ul style="list-style-type: none"> <li>(a) the staff’s recommendations in Agenda Papers 10B and 10C, together with the IASB’s previous tentative decisions on profit or loss and other comprehensive income (OCI), would provide sufficient tools for the IASB to make appropriate standard-setting decisions if future projects consider: <ul style="list-style-type: none"> <li>(i) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or</li> </ul> </li> </ul>

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		<p>(ii) whether such entities should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI;</p> <p>(b) no other areas of the <i>Conceptual Framework</i> need to include a specific reference to reporting entities whose business activities include holding long-term investments;</p> <p>(c) the <i>Conceptual Framework</i> contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting to address appropriately the needs of long-term investors. Similarly, when updated for the IASB’s tentative decisions in May 2014, the <i>Conceptual Framework</i> would also contain sufficient and appropriate discussion of stewardship and prudence to address appropriately the needs of long-term investors.</p>
10G	Equity – Cover paper	<p>This paper provides an overview of papers prepared to conclude the IASB’s discussions for the equity section of the <i>Conceptual Framework</i> Exposure Draft and includes a summary of staff recommendations on the topic.</p> <p>In Appendix A to this paper, the staff indicate preference for the combined settlement and value approach.</p> <p>However, in Agenda Paper 10H, the staff recommend that the IASB should not amend the tentative definition of a liability or the existing definition of equity in the <i>Conceptual Framework</i>. This is because the staff do not think that the benefits of amending the definition of a liability outweigh the costs of the added complexity at this time.</p> <p>In addition, the staff think that applying the tentative definition of a liability (with the help of the accompanying guidance which the IASB has developed) would result in the following classification outcomes that would be <b>partly</b> consistent with the combined settlement and value approach:</p> <p>(a) the classification as liabilities of <b>some</b> obligations to deliver the entity’s own equity instruments, namely those obligations that are <b>capable of requiring</b> the entity to transfer its economic resources under some possible scenarios.</p> <p>(b) the classification as liabilities of <b>some</b> obligations to deliver economic resources that can be deferred until liquidation, namely those obligations for which the entity has <b>no practical ability to avoid</b> earlier redemption.</p>

AP	Title	Content
		<p>If the IASB agrees with the staff that the combined settlement and value approach should be developed further, then the staff suggest that the IASB develops that approach further in the research project on Financial Instruments with Characteristics of Equity. As a result of that project, the IASB may in due course wish to consider amending the definitions of a liability and of equity, or other aspects of the <i>Conceptual Framework</i>.</p> <p>In Agenda Paper 10K we recommend that the <i>Conceptual Framework</i> should neither require nor preclude any accounting requirements for classes of claims within equity.</p>
10H	Equity – Consequences of approaches	This paper discusses whether the <i>Conceptual Framework</i> needs to be amended to accommodate the approaches explored in Agenda Paper 10I.
10I	Distinction between liabilities and equity	This paper is an updated (marked-up) version of Agenda Paper 10H from June 2014 that reflects changes resulting from IASB member comments. This Agenda Paper is for information only. The staff’s preliminary conclusion has changed and is reflected in Appendix A to Agenda Paper 10G.
10J	Equity – Additional analysis and examples	This paper includes some additional analysis and examples to supplement Agenda Paper 10I. At the June 2014 meeting, some IASB members requested additional examples that illustrate some of the concepts in Agenda Paper 10I. This paper also discusses the entity perspective, and structuring opportunities under the settlement and value approaches. This paper is for information only.
10K	Equity – Classes and accounting requirements within equity	This paper discusses whether the <i>Conceptual Framework</i> should require or preclude any accounting requirements for claims within equity.

### Next steps

5. At the October meeting we plan to discuss:
  - (a) transaction costs;
  - (b) potential inconsistencies between existing Standards and the *Conceptual Framework* Exposure Draft;

- (c) consequential amendments; and
  - (d) update on Disclosure Initiative.
6. We also plan to discuss due process and ask the IASB for permission to ballot for publication.