STAFF PAPER

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Project	**Conceptual Framework**		
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Purpose of paper

1. This paper discusses the following issues that have arisen during the drafting of the *Conceptual Framework* Exposure Draft:

   (a) approach to the recognition chapter (paragraphs 3–5);

   (b) definition of economic resource (paragraphs 6–11);

   (c) objective of profit or loss (paragraphs 12–17);

   (d) reference to the entity perspective (paragraphs 18–21).

Next steps

2. We plan to issue a pre-ballot draft of the *Conceptual Framework* Exposure Draft during the week commencing 26 January 2015.

Approach to the recognition chapter

3. In May 2014, the IASB tentatively decided that the *Conceptual Framework* should not establish criteria that govern the recognition of an asset or liability in all circumstances. Instead you decided that the *Conceptual Framework* should describe factors to consider in deciding whether to recognise an asset or liability.

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Those factors would include whether the resulting information would be relevant and provide a faithful representation, and the costs of providing the information relative to the benefits. Agenda Paper 10B *Recognition* for the May 2014 meeting summarised the staff's proposals for the thought process to use in applying those factors. That summary is set out in Appendix A to this paper.

4. The staff continue to believe that whether an asset or liability is recognised should depend on the fundamental qualitative characteristics (relevance and faithful representation) and the cost constraint. We are not asking you to reconsider that decision. However, we have been unable to draft the thought process, summarised by us in May, in a way that was sufficiently clear for inclusion in the *Conceptual Framework*. We have instead set up three criteria for recognition: relevance, faithful representation and cost benefit with supporting guidance for each criterion. Appendix B to this paper illustrates how we propose to implement this approach.

5. We do not believe that this change from factors to criteria would change the outcome of any decisions you make about recognition. The same assets or liabilities would be recognised whether the matters considered are described as factors or criteria. We do, however, believe that this approach is clearer.

Question 1 — Approach to the recognition chapter
Do you agree with the proposal to describe relevance, faithful representation and cost benefit as criteria for recognition rather than as factors to consider when deciding whether to recognise an asset or liability? Do you have any other comments on the recognition chapter?

Definition of economic resource

6. In the Exposure Draft both assets and liabilities are defined in terms of economic resources:

    (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.

7. In May 2014, you tentatively decided that an economic resource should be defined as a right that is *capable* of producing economic benefits. In this context, the term ‘capable’ indicates that the economic benefits must arise from some feature that already exists within the economic resource. (For example, a purchased option has the potential to produce economic benefits to the holder, but only because the option already contains a term that will permit the holder to exercise the option.) The term ‘capable’ is not intended to impose a minimum probability threshold on whether economic benefits will be produced. Rather, it requires only that in at least some circumstances the economic resource will generate economic benefits. Hence, the use of ‘capable’ is consistent with your tentative decision to remove from the definitions of assets and liabilities the notion that an inflow or outflow of economic benefits must be expected.

8. However, during drafting the staff noted that the term ‘capable’ is already used in the discussion of relevance in the existing *Conceptual Framework*:

> QC6 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.
>
> QC7 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

These paragraphs will be carried forward to the Exposure Draft unchanged.

9. The staff is concerned that it may be confusing if the term ‘capable’ is used both to describe what information is relevant and to define an economic resource. In particular, the staff is concerned that the discussion of the meaning of ‘capable’ in the context of the definition of an economic resource might trigger a change in practice: it might imply that an item is relevant even if there is only a very low probability that the item would make a difference to the decisions made by users.

10. Hence, the staff propose to replace the term 'capable' with the term 'has the potential to' in the definition of an economic resource. The proposed definition of an economic resource is therefore:

    An economic resource is a right that has the potential to produce economic benefits.

11. We do not think that this will change the meaning of the definition or capture more or fewer items.

Question 2 — Definition of economic resource
The staff propose to include the following definition of an economic resource in the Exposure Draft: An economic resource is a right that has the potential to produce economic benefits. Do you agree?

Objective of profit or loss

12. The *Conceptual Framework* Discussion Paper suggested a dual objective for profit or loss. That dual objective includes both:

    (a) depicting the return an entity has made on its economic resources during the period; and

    (b) providing information that is helpful in assessing prospects for future cash flows.

13. Some respondents to the Discussion Paper argued that a single rather than a dual objective for profit or loss would be more useful. These respondents argued that a single objective (for example, providing information about the transactions and events that have taken place during the period) could help to distinguish items of income or expense that should be included in profit or loss from items that could be included in other comprehensive income (OCI).

14. In June 2014, you discussed, and rejected, the idea of describing a single objective for profit or loss. You noted that a single objective could lead to the inclusion in

OCI of items that might be better reported in profit or loss. We are not asking you to reconsider this decision.

15. However, in drafting, we have concluded that the proposed dual objective for profit or loss is redundant. This is because the objective for profit or loss simply repeats two items already included in the supporting discussion of the overall objective of financial reporting:

    (a) depicting the return an entity has made on its economic resources (paragraph OB16); and

    (b) providing information that is helpful in assessing prospects for future cash flow (paragraph OB3).

16. In addition, the staff note that the Exposure Draft does not include objectives for any other components on the financial statements (ie we are not proposing objectives for the statement of financial position, the notes or OCI).

17. Hence, the staff propose not to include an objective for profit or loss in the Exposure Draft. However, the staff note that, consistently with your other decisions, the Exposure Draft will describe income and expenses included in profit or loss as the primary source of information about an entity's financial performance for the period.

Question 3 — Objective of profit or loss
The staff propose not to include an objective for profit or loss in the Exposure Draft. Do you agree?

Reference to the entity perspective

18. In May 2014, you discussed the perspective from which financial statements should be prepared. At that meeting, the staff noted that consideration of the perspective of financial statements gives rise to two issues:

    (a) whether the reporting entity exists separately from its owners; and

(b) whether financial statements should be prepared from the perspective of a specific class (or classes) of capital providers or from the perspective of the entity as a whole (ie all capital providers).

19. The staff also noted that the basis for conclusions on Chapter 1 of the existing *Conceptual Framework* already deals with the first of these questions:

> BC 1.8 Some respondents to the exposure draft said that the reporting entity is not separate from its equity investors or a subset of those equity investors. This view has its roots in the days when most businesses were sole proprietorships and partnerships that were managed by their owners who had unlimited liability for the debts incurred in the course of the business. Over time, the separation between businesses and their owners has grown. The vast majority of today's businesses have legal substance separate from their owners by virtue of their legal form of organisation, numerous investors with limited legal liability and professional managers separate from the owners. Consequently, the Board concluded that financial reports should reflect that separation by accounting for the entity (and its economic resources and claims) rather than its primary users and their interests in the reporting entity.

20. With regard to the second issue in paragraph 18, you tentatively decided that financial statements should be prepared from the perspective of the reporting entity as a whole. The staff think that:

(a) this decision is consistent with the description of the primary users of financial reports in the existing *Conceptual Framework*[1];

(b) the alternative to adopting the perspective of the reporting entity as a whole would have been to adopt the perspective of some subset of those primary users, for example, the

[1] The primary users of financial reports are described in paragraph OB2 of the existing *Conceptual Framework* as existing and potential investors, lenders and other creditors.

proprietors of the entity. Adopting a proprietary perspective would require a definition of those proprietors. It might also affect the definitions of liabilities and of equity and perhaps also have implications for the reporting of financial performance; and

(c) including an explicit reference to the perspective of the reporting entity as a whole would provide no new insights and may cause confusion.

21. We are therefore proposing not to include in the Exposure Draft the statement that financial statements should be prepared from the perspective of the reporting entity as a whole.

Question 4 — Reference to the entity perspective
The staff propose not to include in the Exposure Draft the statement that financial statements should be prepared from the perspective of the reporting entity as a whole. Do you agree?

Appendix A — Recognition: The thought process for recognition

A1. Agenda paper 10B *Recognition* from the May 2014 meeting described the following main ingredients of a thought process that could be used when making recognition decisions:

(a) Information about economic resources and obligations is relevant to users. Recognising assets and liabilities depicts economic resources and obligations, in a structured summary that is intended to be comparable and understandable. Failure to recognise an asset or liability makes that summary less complete. Hence, disclosure does not rectify failure to recognise an asset or liability.

(b) In deciding whether to recognise an asset or liability, it is necessary to assess whether it is possible to measure the asset or liability in a way that would provide relevant information to users. The following are examples of cases when it is possible that no measurement provides relevant information:

(i) if it is uncertain whether the asset or liability exists.

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

(iii) if all measurements that are available, or can be obtained, are exceptionally uncertain (as discussed below).

(c) In many cases, measurements must be estimated and are subject to uncertainty. As noted in paragraph 4.41 of the existing *Conceptual Framework*, the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their usefulness. To provide a faithful representation, amounts that are estimates or that are the results of allocations, systematic or otherwise, must be described as such, and if significant, the nature and degree of uncertainties must be disclosed.

(d) In exceptional cases, as noted in paragraph QC16 of the existing *Conceptual Framework*, the level of uncertainty in an estimate is so large that the estimate will not be particularly relevant, even if supporting disclosures are provided. The following are indicators that an estimate may not provide relevant information:

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

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

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

(e) The recognition of income and expenses depends on the recognition and initial measurement of assets and liabilities, and on changes in the carrying amount of assets and liabilities. In deciding whether to recognise an asset or liability, it is necessary to consider whether the resulting income or expenses will provide relevant information and result in a faithful and understandable representation. For example, in some cases, recognising an asset or liability may not result in a faithful and understandable representation if a related asset or liability cannot be recognised.

(f) As for all decisions in setting standards, it will be necessary to consider whether the benefit of providing the information needed to recognise an asset or liability justifies the cost of doing so.

Appendix B – Recognition: Extracts from the staff's current drafting

Exposure Draft

The following is an extract from the most recent version of the wording being developed by the staff for inclusion in the recognition chapter of the *Conceptual Framework* Exposure Draft.

…

Whether elements are recognised

5.7 Information about assets, liabilities, income and expenses is relevant to users. Recognising assets, liabilities, income and expenses depicts economic resources and obligations, and changes in them, in a structured summary that is intended to be comparable and understandable. Important features of the structure of that summary are that: (a) the amounts recognised in a statement are included in the totals and applicable sub-totals that give structure to the statement and (b) the statements are linked as described in paragraph [paragraph not provided in this extract].

5.8 Failure to recognise elements makes the statements of financial position and financial performance less complete, and that lack of completeness of the statements cannot be rectified by disclosure. On the other hand, recognition of some elements in some circumstances can result in information that is not useful. Hence, assets and liabilities are recognised if:

(a) recognition of the asset or liability provides users of financial statements with relevant information about the asset or liability, and any resulting income or expenses;

(b) recognition of the asset or liability provides a faithful representation of the asset or liability and of any resulting income or expenses; and

(c) the benefit of the information given by recognising the asset or liability outweighs the cost of doing so.

Relevance

5.9 In order to be recognised, an asset or liability must be measured. In some cases, there may be no measurement basis for an asset or liability that, when recognised,

provides relevant information about the asset or liability and resulting income or expenses. It is not possible to define precisely when this will be the case because it depends on the specific facts and circumstances. Relevant information is different things for different items, and so recognition guidance might need to vary.

5.10 However, recognition may not provide relevant information when one or more of the following applies:

(a) it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists (see paragraphs 5.12–5.15);

(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 (see paragraphs 5.16–5.18); or

(c) if all relevant measurements that are available, or can be obtained, are exceptionally uncertain (see paragraphs 5.19–5.20).

5.11 Often it will be a combination of these factors, rather than any single factor, that causes the information that would be given by recognition to lack relevance.

Existence uncertainty and separability

5.12 Internally-generated goodwill is not recognised because doing so would require a valuation of the entity as a whole, which is outside the objective of financial reporting.

5.13 Some assets, such as rights generated by items such as know-how, customer lists, and customer and supplier relationships, are not legal rights. It may therefore be unclear whether there is an asset or whether it is separable from the business as a whole (in other words it is unclear whether there is an asset distinct from goodwill). If there is also uncertainty over whether they have the potential to produce economic benefits, the cost of identifying the asset and obtaining a relevant measure may outweigh the benefits of recognition.

5.14 In making such decisions, it is important to also consider the information that would be given by not recognising an asset. If expenditure is not capitalised as an asset, an expense is recognised. Over time, those expenses, and trends in them, can give relevant information at a lesser cost than recognition.

5.15 For liabilities, it may be unclear whether a past event that causes an obligation has occurred. This is particularly the case if there is no observable transaction, for

example with a potential lawsuit. In some such cases, that uncertainty, possibly combined with a low probability of outflows of economic benefits and high measurement uncertainty may mean that recognition of a single amount cannot provide relevant information, even with supporting disclosures.

Low probability of an inflow or outflow of economic benefits

5.16 An asset or liability can exist with a low probability that there will be an inflow or outflow of economic benefits (see paragraphs [in chapter 4 on elements, not provided in this extract]).

5.17 A low probability of an inflow or outflow of economic benefits does not, by itself, mean that there is no measure of the asset or liability that provides useful information, especially if the measure reflects the low probability. This is particularly the case if the asset or liability arises in an exchange transaction with an observable price. Further, not recognising the asset or liability in this case would result in the recognition of income or expenses which would not be a faithful representation of the transaction.

5.18 However, users of financial statements may not find it useful for the statement of financial position to include assets and liabilities with highly improbable inflows and outflows of economic benefits.

Measurement uncertainty

5.19 In many cases, measurements must be estimated and are subject to uncertainty. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their usefulness. To provide a faithful representation, amounts that are estimates or that are the results of allocations must be described as such, and if significant, the nature and degree of uncertainties must be disclosed.

5.20 In exceptional cases, as noted in paragraph [in the chapter on qualitative characteristics, not provided in this extract] the level of uncertainty in an estimate is so large that the estimate will not be particularly relevant, even if supporting disclosures are provided. The following are indicators that an estimate may not provide relevant information and hence might not be recognised:

(a) the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate. In such cases, the most relevant information for users of financial statements might relate to the

range of outcomes and the factors affecting their likelihoods. When that information is relevant (and can be provided at a cost that does not exceed the benefits), the entity should disclose that information, regardless of whether the entity also recognises the asset or the liability. However, in some cases, trying to capture that information in a single number as a measure for recognition in the statement of financial position may not provide any further relevant information.

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

Faithful representation

5.21 In determining how to represent faithfully assets, liabilities, equity, income and expenses, it is necessary to consider not only recognition, but also which measurement to use and how to present and disclose information about the recognised assets, liabilities, equity, income and expenses (see chapters 6–7).

5.22 Hence, when assessing whether it is possible for recognition of an asset or liability to provide a faithful representation of the asset or liability and of any resulting income or expenses, it is necessary to consider not just its description and measurement on the face of the statement of financial position, but also:

(a) related disclosures: a complete depiction includes all information necessary for a user of financial statements to understand the phenomenon being depicted, including all necessary descriptions and explanations; and

(b) the depiction of the resulting income and expenses: for example, if an entity acquires an asset in exchange for consideration, the failure to recognise the asset would result in an expense and reduce the entity's profit and equity. In some cases, for example, if the entity does not consume the asset immediately, that result could provide a misleading representation that the entity's financial position has deteriorated.

5.23 In some cases, two or more assets, liabilities or both, are affected by the same transaction or other event. Recognising all the changes in assets and liabilities may not be possible because some affected assets or liabilities may not have been recognised in the past, or may not currently meet the criteria for recognition. In some such cases, recognising only some of the changes in assets and liabilities,

and hence only some of the income and expenses, might not provide an understandable or faithful representation of the overall effect of the transaction or other event, even if extra disclosure is provided. Hence, if recognising all changes in assets and liabilities is not possible, it may be necessary not to recognise other changes, even if they provide relevant information about the individual asset or liability affected and resulting income or expenses, to avoid an accounting mismatch.

Cost

5.24 There is a cost to recognising an element, in terms of obtaining a relevant measure, and also in potentially more complex presentation and disclosure that is harder for users of financial statements to understand. In some of the cases discussed above, it may be that the cost of recognition outweighs the benefits.

5.25 In making that decision, it is necessary to consider the role of disclosures, either in supporting recognised amounts or in providing information in the absence of recognition. In some cases, supporting disclosures could allow recognition of a relevant measure to give a faithful representation. In other cases, relevant information provided by disclosure could be more cost effective than recognition.

Basis for Conclusions

The following is an extract from the most recent version of the wording being developed by the staff for the Basis for Conclusions on the recognition chapter of the *Conceptual Framework* Exposure Draft.

Whether elements are recognised

Existing requirements

BCX1 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.

BCX2 In addition, as with all other aspects of the existing *Conceptual Framework*, the cost constraint applies. Thus, if the benefits of recognising a particular asset or liability do not justify the costs, requiring its recognition would not be appropriate.

BCX3 These criteria have caused some problems.

Problems with probability criterion

BCX4 Some existing standards do not apply a probability recognition criterion, for example IFRS 9 Financial Instruments. Those that do use a wide range to describe probability thresholds. These include 'probable', 'more likely than not', 'virtually certain', and 'reasonably possible', indicating a lack of consistency in the meaning attached to 'probable'.

BCX5 Having a probability recognition criterion could prevent recognition of some financial instruments. Moreover, it could sometimes result in a gain on initial recognition of a liability. For example, suppose that, in exchange for receiving cash immediately, an entity incurs a liability to pay a fixed amount if some unlikely event occurs in the future. If the liability does not pass the filter, the entity will recognise a gain when it receives the cash.

Problems with reliable measurement criterion

BCX6 Using reliable measurement as a criterion could be confusing because reliability is not identified as a qualitative characteristic (see paragraphs [not provided in this extract]). However, in practice, the criterion seems to have been interpreted as relating to measurement uncertainty, and hence a broadly similar result can be achieved by acknowledging that there are cases when an item is so difficult to measure that recognising it does not result in relevant information (see paragraphs [not provided in this extract]).

Approach in the Discussion Paper

BCX7 The Discussion Paper suggested that the discussion of whether to recognise an asset or liability should refer directly to the qualitative characteristics of useful financial information. Accordingly, an entity would 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.

BCX8 The Discussion Paper also suggested that the *Conceptual Framework* should list the following indicators explaining when recognition might produce information that does not possess those qualitative characteristics:

(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.

Responses to the Discussion Paper

BCX9 Some respondents believed that the suggestions in the Discussion Paper were intended to increase the range of assets and liabilities recognised and expressed concerns about that outcome. However, in developing the Discussion Paper and, subsequently the Exposure Draft, the IASB's aim has been solely to develop tools that enable it to take decisions based on a more coherent set of principles that result in useful information. The IASB has not had, and does not have, an objective of either increasing or decreasing the range of assets and liabilities recognised.

BCX10In terms of the best overall perspective to take, some favoured a bias towards recognition:

(a) A few respondents to the Discussion Paper suggested that an entity should recognise all its assets and liabilities, with no exceptions. They argued that this promotes completeness, comparability, consistency and conceptual integrity in financial reporting.

(b) A few other 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 could be developed in particular Standards by referring to the qualitative characteristics of useful financial information.

(c) Some respondents suggested that the *Conceptual Framework* should establish a rebuttable presumption that all assets and liabilities should be recognised. They indicated that this would generally result in the most relevant information.

BCX11 However most respondents believed that it is neither relevant nor feasible for an entity to recognise all of its assets and liabilities:

(a) Some respondents felt that recognition should occur only when there is clear evidence that this provides a relevant and faithful representation. These respondents expressed concerns over the potential recognition of specific items such as some litigation liabilities and some intangible assets, and also on a perceived need for a time-consuming search to identify all possible assets and liabilities.

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

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

  (ii) such an approach would assist preparers and others who need guidance on when to recognise an asset or liability that no Standard covers. The use of this guidance by parties other than the IASB should cause no concerns because the *Conceptual Framework* does not override recognition criteria in Standards.

BCX12 The IASB concluded that the best perspective for the *Conceptual Framework* is an even-handed approach to recognition, without either:

(a) a presumption that all assets and liabilities should be recognised, or

(b) unnecessary obstacles to recognition.

Rather, the *Conceptual Framework* should set out the factors that drive recognition decisions without prejudging their future affect.

BCX13 Many respondents to the Discussion Paper agreed that:

(a) the approach to recognition should refer to relevance and faithful representation.

(b) the *Conceptual Framework* should acknowledge that significant uncertainty and significant measurement difficulties might undermine relevance and make it difficult to provide a faithful representation.

(c) the cost constraint should play a role in recognition decisions.

BCX14 Respondents commenting on recognition were evenly divided on how best to refer to relevance and faithful representation and how best to acknowledge the effects of significant uncertainty and significant measurement difficulties:

(a) Some favoured retaining one or both of probability and reliability of measurement as explicit recognition criteria, as practical filters to identify cases where recognition is not likely to provide information that possesses the qualitative characteristics of useful financial information. Requests to retain an explicit probability criterion were considerably more numerous than requests to retain an explicit reliability criterion.

(b) Others favoured the approach suggested by the Discussion Paper, to refer more directly to the qualitative characteristics, supplemented by guidance.

BCX15 Proponents of using probability and reliability argued that these criteria would be clearer, more robust and less judgemental than the approach suggested in the Discussion Paper. Some feared that lack of robust criteria would result in broader, and excessive, recognition of assets and liabilities.

BCX16 The IASB continues to think that building directly on the qualitative characteristics of useful financial information makes the *Conceptual Framework* internally consistent. Nevertheless, it thinks that just referring directly to the qualitative characteristics, without providing supporting guidance, would lead to inconsistent recognition decisions at the Standards level.

BCX17 Paragraph 5.8 of the Exposure Draft sets out the IASB's proposed recognition criteria. An asset or liability is recognised if:

(a) recognition of the asset or liability provides users of financial statements with relevant information about the asset or liability, and about any resulting income or expenses;

(b) recognition of the asset or liability provides a faithful representation of the asset or liability and of any resulting income or expenses; and

(c) the benefit of the information given by recognising the asset or liability outweighs the cost of doing so.

Supporting guidance is provided for each criterion.

BCX18 In developing its proposals on recognition, the IASB considered the following factors:

(a) Indicators of lack of relevance (paragraphs BCX19–BCX21);

(b) Existence uncertainty and separability from goodwill (paragraphs [not provided in this extract]);

(c) Low probability of an inflow or outflow of economic benefits (paragraphs [not provided in this extract]);

(d) Measurement uncertainty and reliability (paragraphs [not provided in this extract]);

(e) Faithful representation (paragraphs [not provided in this extract]);

(f) Enhancing qualitative characteristics (paragraphs [not provided in this extract]);

(g) Cost constraint (paragraph [not provided in this extract]).

The need for indicators of lack of relevance

BCX19 The guidance supporting the proposed recognition criteria includes the following list of indicators identifying some of the cases when recognising an asset or liability may not provide users of financial statements with relevant information:

(a) if it is uncertain whether the asset or liability exists, or is separable from goodwill (paragraphs [not provided in this extract]);

(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 (paragraphs [not provided in this extract]); or

(c) if all relevant measurements that are available, or can be obtained, are exceptionally uncertain (paragraphs [not provided in this extract]).

Those indicators cover some (but not necessarily all) cases where the recognition criteria in the existing *Conceptual Framework* might have led to a conclusion that a flow is not probable or that reliable measurement is not possible.

BCX20 The indicators are derived from indicators suggested by the Discussion Paper. Some respondents stated that:

(a) it would be useful to explain how the qualitative characteristics might be applied in recognition, but that indicators are not necessary to achieve this.

(b) The indicators, and supporting examples illustrating how the indicators might be applied, do not provide concepts. The *Conceptual Framework* should contain clear concepts.

BCX21 Other respondents indicated that such indicators are essential to make the recognition criteria sufficiently robust. The IASB continues to agree with that view. The indicators are necessary to illustrate how to apply the concepts embodied in the recognition criteria. However, to avoid providing Standards-level detail, the IASB has deleted the specific examples contained in the Discussion Paper as illustrations of how the indicators might be applied.