

International Financial Reporting Standards

Conceptual Framework for Financial Reporting Board meeting

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

- At this meeting we will:
 - provide you with some background on the IASB's Conceptual Framework project (slides 3 – 6)
 - describe proposed changes to the chapters on the objective and the qualitative characteristics that were developed jointly (slides 7 – 11)
 - explain our proposed approach to those areas that the FASB is currently working on:
 - Measurement (slides 12 – 16)
 - Presentation (slides 17 – 20)
 - summarise what we have heard so far on those areas

What is the Conceptual Framework?

It is a practical tool that assists:

- the IASB to develop Standards
- preparers to develop consistent accounting policies
- others to understand and interpret IFRS

It underpins the decisions made by the IASB when setting Standards

- It will affect future Standards developed by the IASB

It addresses fundamental issues:

- What is the objective of financial reporting?
- What makes financial information useful?
- What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

It is not a Standard and does not override Standards

Why are we revising the Conceptual Framework?

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The existing *Conceptual Framework* has proved useful but some improvements are needed

Gaps

For example, it provides very little guidance on measurement or presentation and disclosure.

Unclear

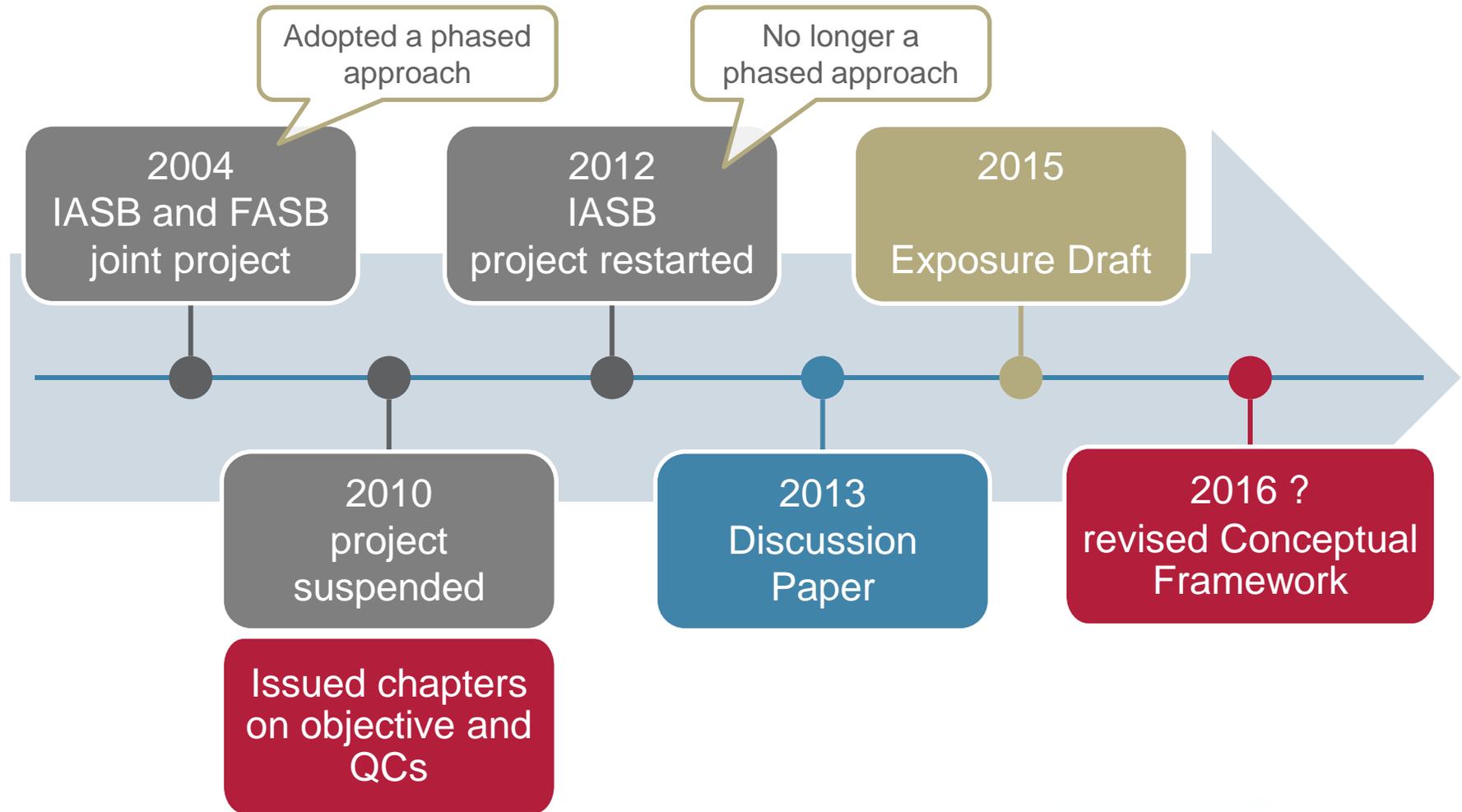
For example, it is unclear what role measurement uncertainty should play in decisions about recognition and measurement.

Out of date

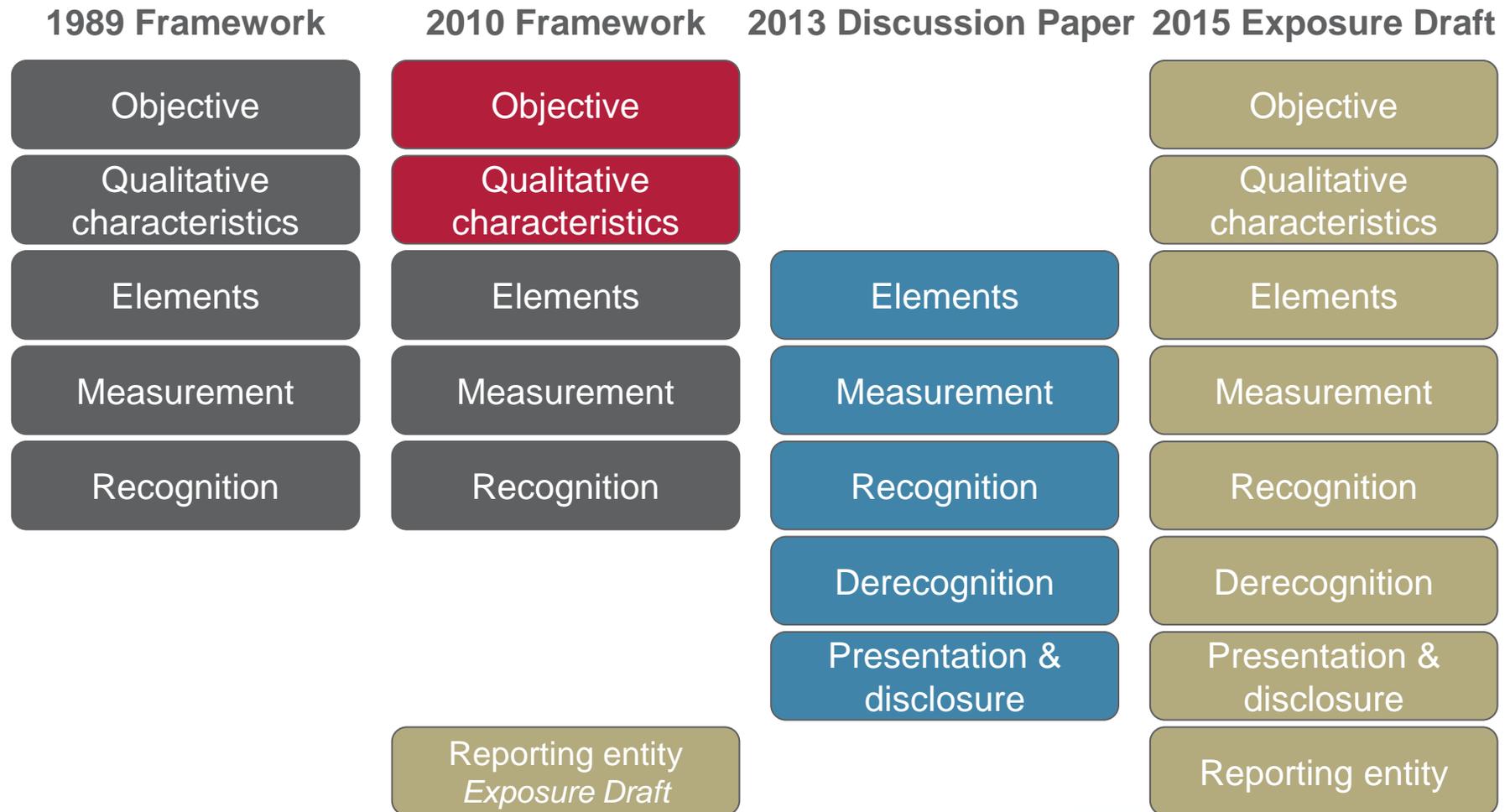
For example, the existing guidance on when assets and liabilities should be recognised is out of date.

Identified as a priority project by respondents to the IASB's 2011 Agenda Consultation

Timeline



History of the Conceptual Framework



Objective and qualitative characteristics

The objective of general purpose financial reporting is to provide **useful financial information**

Relevance

- Relevant financial information is capable of making a difference in a decision made by users

Faithful representation

- Representation of relevant economic phenomena and faithful representation of the phenomena that it purports to represent
- Complete, neutral and free from error

Enhancing characteristics

Comparability • Verifiability • Timeliness • Understandability

Cost constraint

Stewardship

- Give more prominence to the need to provide information to assess management's stewardship of the entity's resources

Primary users of financial statements

- Confirm focus on existing and potential investors, lenders and other creditors
 - Includes long-term investors

Stewardship

Mixed feedback:

- Some welcome proposal
- Some would have liked us to identify stewardship as a separate objective of financial reporting
- Some are concerned that giving stewardship more prominence could lead to a need to provide more information in financial reports

Primary user

Mixed feedback:

- Some support existing description of primary users
- Some think primary user group should be investors only
- Others would like us to identify a broader primary user group that includes regulators and others

Proposals on the qualitative characteristics

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Prudence

- Reintroduce an explicit reference to the notion of prudence (exercise of caution when making decisions under conditions of uncertainty)
- No overstatement or understatement of assets, liabilities, income or expenses (ie neutral)

Measurement uncertainty

- If an estimate is too uncertain, it might not provide relevant information
- Trade-off against other factors that affect relevance
- Retain faithful representation (rather than use reliability) as label for that qualitative characteristic

Substance over form

- Reintroduce explicit reference to substance over form within description of faithful representation

What we have heard so far

Prudence

Mixed feedback:

- Some welcome reference to prudence
- Some would like us to go further and introduce asymmetric prudence
- Some object to reference to prudence because of concerns that it could lead to bias and provide opportunities for earnings manipulation

Reliability

Some would like a return to 'reliability'

Substance over form

Most welcome explicit reference

Measurement bases

Historical cost

Uses information derived from the transaction or event that created the asset or liability.

Current value

Uses information that is updated to reflect conditions at the measurement date.

Measurement based on:

Market participant's assumptions

Fair Value

Entity-specific assumptions

- Value in use (assets)
- Fulfilment value (liabilities)

Selecting a measurement basis

For information provided by a particular measurement basis to be useful, it must be:

Relevant

Faithfully represented

Enhancing characteristics

Comparability • Verifiability • Timeliness • Understandability

Cost constraint

Relevance

- Information produced in both statement of financial position and statement(s) of financial performance
- How an asset or liability contributes to future cash flows
 - depends in part on business activities being conducted
- Characteristics of asset or liability
 - eg nature or extent of variability in cash flows, sensitivity to risks etc
- Level of uncertainty
 - but sometimes a measurement with a high degree of uncertainty is the only relevant measurement

Faithful representation

- Consider how best to portray link between items

Others

- Understandability
 - Using new or different measurement bases could reduce understandability
 - Avoid unnecessary changes in measurement bases
- Cost constraint
 - Benefit of providing useful information should always exceed the cost of doing so

Measurement

- Support for the mixed measurement approach
- Concerns that the factors to consider in selecting a measurement basis might not provide useful guidance to the board because they are too subjective and do not make the link between types of asset and liabilities and their measurement

Exposure Draft

- Objective and scope of financial statements
- Classification, aggregation and offsetting
- Information in the notes
- Communication principles

Disclosure Initiative

- Portfolio of projects aimed at improving the effectiveness of disclosures:
 - Principles of Disclosure
 - Review of existing Standards
 - Materiality
 - Amendments to IAS 1 *Presentation of Financial Statements*
 - Amendments to IAS 7 *Statement of Cash Flows*: reconciliation of liabilities from financing activities

Presentation in profit or loss

Statement of profit or loss

This statement is the primary, but not the only, source of information about an entity's financial performance in the period

	20X5	20X4
Revenue from customers	234,439	212,367
Cost of sales	(112,764)	(106,259)
...
Taxes	(21,546)	(20,587)
...
Profit (loss) for the year	18,897	16,763

Profit or loss is a required total or subtotal

Rebuttable presumption that income and expenses are included in profit or loss

Statement of comprehensive income

	20X5	20X4
Profit (loss) for the year	18,897	16,763
Currency translation	68	(51)
FV adjustment cash flow hedging	(2,764)	6,259
...
Taxes	(215)	87
<i>Other comprehensive income for the year</i>	<i>(2,546)</i>	<i>4,253</i>
Total comprehensive income for the year	16,351	21,016

Income and expenses included in OCI only if that enhances relevance of profit or loss in the period

Presumption that income and expenses included in OCI in one period are subsequently included in profit or loss (recycled)

OCI only for some income and expenses from changes in current measures of assets and liabilities

Profit or loss and OCI

Some support for proposed approach,
however many would like us to define
profit or loss/financial performance

