

## STAFF PAPER

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## IASB Meeting

Project	Conceptual Framework		
Paper topic	Approach to redeliberations—Reporting financial performance		
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7246 6410
	Rachel Knubley	rknubley@ifrs.org	+44 (0)20 7246 6904

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**Purpose of paper**

1. This paper discusses approaches to redeliberations of the proposals in the Exposure Draft *Conceptual Framework for Financial Reporting* (‘the Exposure Draft’) on presenting information about financial performance. It identifies possible approaches, provides staff recommendation and asks the Board for direction. The staff will present detailed analysis and recommendations within the direction provided by the Board in future papers.

**Structure of paper**

2. This paper is structured as follows:
  - (a) staff recommendation (paragraph 3);
  - (b) background (paragraphs 4-6);
  - (c) approaches to redeliberations (paragraphs 7-27):
    - (i) do not provide guidance in the *Conceptual Framework for Financial Reporting* (‘the *Conceptual Framework*’) (paragraphs 7-12);
    - (ii) provide high-level guidance in the *Conceptual Framework* (paragraphs 13-19);

- (iii) provide more specific guidance in the *Conceptual Framework* (paragraphs 20-27); and
- (d) conclusion and question for the Board (paragraphs 28-30).

### **Staff recommendation**

3. The staff recommend that the Board explore providing high-level guidance in the *Conceptual Framework* using the proposals in the Exposure Draft as the starting point.

### **Background**

4. The Exposure Draft proposed providing high-level guidance on reporting financial performance in the *Conceptual Framework*. It proposed that the statement of profit or loss is described as the primary, but not the only, source of information about an entity's performance for the period and that items of income and expense are excluded from that statement only if doing that enhances its relevance. It also proposed that items of income and expense included in other comprehensive income (OCI) are recycled to the statement of profit or loss when doing so enhances the relevance of that statement.
5. As discussed in [Agenda Paper 10K](#) for the March Board meeting, many respondents stated that the proposed guidance is not conceptual or is insufficient to assist the Board in future standard-setting and asked the Board to do further work on reporting financial performance. Many respondents disagreed with some or all aspects of the proposals. However, they disagreed with the proposals for different reasons and no consensus view emerged.
6. A few respondents stated they could accept the proposals as a starting point and suggested that the Board should revisit the *Conceptual Framework* when reporting financial performance is addressed comprehensively. A few respondents cautioned the Board against prejudging the outcome of any future work on reporting financial performance and being too specific in the *Conceptual Framework* at this stage.

## **Approaches to redeliberations**

7. In the light of the feedback on the proposals in the Exposure Draft, the staff have identified three possible approaches to redeliberations:
- (a) do not provide guidance in the *Conceptual Framework* (paragraphs 7-12);
  - (b) provide high-level guidance in the *Conceptual Framework* (paragraphs 13-19); and
  - (c) provide more specific guidance in the *Conceptual Framework* (paragraph 20-27).

### ***Do not provide guidance in the Conceptual Framework***

#### *Description of the ‘no guidance’ approach*

8. Under the ‘no guidance’ approach:
- (a) the revised *Conceptual Framework* would be issued without any guidance on reporting financial performance;
  - (b) the Board would consider whether to address reporting financial performance in a separate project; and
  - (c) the Board would revisit and update the *Conceptual Framework* in the future as and when any future work on reporting financial performance delivers appropriate concepts for the inclusion in the *Conceptual Framework*.

#### *Advantages of the ‘no guidance’ approach*

9. The staff think that the main advantage of the ‘no guidance’ approach is that it would not pre-judge the outcome of any further work that the Board may decide to undertake on reporting financial performance. Accordingly, it would not limit any further research by setting a particular starting point and it would not risk creating a conflict with an outcome of any such further research.
10. In addition, this approach would allow the Board to take the time that is necessary to develop its views on reporting financial performance.

*Disadvantages of the ‘no guidance’ approach*

11. The staff think that the main disadvantage of the ‘no guidance’ approach is that it would provide no structure and no point of reference for future discussions by the Board in setting IFRS Standards unless and until the *Conceptual Framework* is updated to reflect any outcome of further work on reporting financial performance. Accordingly, the staff think that such an approach would represent a step backwards compared to the proposals in the Exposure Draft.
12. In addition, the staff remain sceptical about how much further progress can be made on reporting financial performance and how soon given the lack of consensus amongst interested parties. The staff would like to remind the Board that many years of research and debate have not yet produced an approach that would be acceptable for many interested parties. The staff note that the feedback on the Exposure Draft confirms that interested parties continue to have diverse views on reporting financial performance.

***Provide high-level guidance in the Conceptual Framework***

*Description of the ‘high-level guidance’ approach*

13. Under the ‘high-level guidance’ approach:
  - (a) the revised *Conceptual Framework* would provide high-level guidance using the proposals in the Exposure Draft as the starting point; and
  - (b) the staff would develop and present to the Board specific suggestions on whether and how to modify the proposals in the light of the feedback received on the Exposure Draft, for example:
    - (i) place more emphasis on disaggregation and classification of items of income and expense based on shared characteristics;
    - (ii) emphasise the idea of inclusiveness of the statement (or section) of profit or loss as a source of information about an entity’s performance for the period;
    - (iii) replace proposed rebuttable presumptions by principles; and
    - (iv) limit the guidance provided in the *Conceptual Framework* to high-level principles.

14. The Board could consider undertaking more work on reporting financial performance in the future and could decide to update the *Conceptual Framework* to reflect the outcome of any such further work.
15. The staff envisage that guidance included in the *Conceptual Framework* under this approach would be broadly consistent with the proposals in the Exposure Draft. In addition, this approach would not involve providing any *additional* guidance. Instead, it may involve providing *less* guidance than proposed in the Exposure Draft in order to:
  - (a) ensure that any principles included in the *Conceptual Framework* are stable and reflect the feedback received from interested parties; and
  - (b) avoid pre-judging the outcome of any further work on reporting financial performance that the Board may decide to undertake.

*Advantages of the ‘high-level guidance’ approach*

16. The staff think that the main advantage of the ‘high-level guidance’ approach is that it represents a step forward in the debate on reporting financial performance and the first building block in building consensus. It is consistent with treating the *Conceptual Framework* as a ‘living document’ which maintains stable principles but may be updated over time if the Board’s thinking develops.
17. The staff acknowledge that high-level guidance that would be included in the *Conceptual Framework* under this approach would not point the Board to one particular direction in setting requirements for reporting financial performance. Instead, the Board would need to debate any such requirements and exercise judgment. However, the staff think that such high-level guidance would provide structure and discipline for future discussions by the Board in setting IFRS Standards. The staff also note that such an approach was supported by some of the respondents to the Exposure Draft and members of the IFRS Advisory Council (refer to Agenda Paper 10B *Approach to redeliberations*).

*Disadvantages of the ‘high-level guidance’ approach*

18. The staff think that the main disadvantage of the ‘high-level guidance’ approach is that it is not responsive to requests to provide more guidance on reporting financial

performance in the *Conceptual Framework*. However, in the light of the mixed views expressed by the respondents to the Exposure Draft, the staff think that providing more guidance in the *Conceptual Framework* within the current project's timetable is not possible.

19. In addition, this approach is not completely free from the risk of pre-judging the outcome of any further work that the Board may decide to undertake on reporting financial performance. Any guidance included in the *Conceptual Framework* at this time would represent a logical starting point for any further work on reporting financial performance that the Board may decide to undertake. If any such work ultimately takes a different direction, the *Conceptual Framework* would require revisions. Accordingly, the staff think it is very important to carefully consider how much guidance can be included in the *Conceptual Framework* at this time to strike a balance between:
- (a) assisting the Board in future standard-setting; and
  - (b) mitigating the risk of limiting or creating conflict with any future work on reporting financial performance that the Board may decide to undertake.

***Provide more specific guidance in the Conceptual Framework***

*Description of the 'more specific guidance' approach*

20. Under the 'more specific guidance' approach:
- (a) the *Conceptual Framework* would provide more specific guidance on reporting financial performance than the high-level guidance proposed in the Exposure Draft; and
  - (b) the staff would develop and present to the Board alternatives for providing such more specific guidance *based on the Board's recent proposals*, for example:
    - (i) the dual measurement approach discussed in the Basis for Conclusions on the Exposure Draft as the *only* basis for the use of OCI;

- (ii) the narrow approach to OCI as set out in the Discussion Paper *A review of the Conceptual Framework for Financial Reporting* ('the Discussion Paper'); and
- (iii) the broad approach to OCI as set out in the Discussion Paper.

21. The Board could consider undertaking more work on reporting financial performance in the future and could decide to update the *Conceptual Framework* to reflect the outcome of any such further work.
22. The staff would like to emphasise that any alternatives under this approach would need to be based on the recent Board's proposals. The staff do not think it would be possible to develop an altogether different approach in the near future.

*Advantages of the 'more specific guidance' approach*

23. The staff think that the main advantage of the 'more specific guidance' approach is that it would be responsive to requests to provide more guidance to assist the Board in future standard-setting. In addition, it could arguably result in more consistent decisions by the Board on the use of profit or loss and OCI. However, the staff have reservations about the quality of such guidance and whether it would in fact result in more consistency in practice. These reservations are discussed below.

*Disadvantages of the 'more specific guidance' approach*

24. As stated in paragraph 20, the alternatives that the Board could consider under this approach would have already been considered and rejected in the Conceptual Framework project. The staff think it is unlikely that these alternatives would be any more acceptable to the Board now.
25. Furthermore, the staff are not convinced that such more specific guidance would be of any greater assistance to the Board in practice than high-level guidance. Each of the alternatives the Board could consider pursuing would merely shift the focal point of the debate without providing a definitive answer. For example, if the Board was to pursue the dual measurement approach to reporting financial performance, the debate would focus on whether dual measurement is appropriate instead of focussing on whether including an item of income or expense in OCI would enhance the relevance of profit or loss.

26. The staff are also concerned about the implications of this approach for the Conceptual Framework project's timetable. The staff think that even if the alternative that the Board may decide to pursue is based on previous proposals, the Board would need to consider re-exposure. If the guidance on reporting financial performance is re-exposed, that would result in a delay in issuing the revised *Conceptual Framework*—unless the Board decides to issue the revised *Conceptual Framework* without the section on reporting financial performance and add that section once it is finalised. The staff note that delaying issuing the *Conceptual Framework* in order to provide more specific guidance on reporting financial performance would be inconsistent with the advice provided by the IFRS Advisory Council that advocated issuing an improved *Conceptual Framework* on a timely basis (refer to Agenda Paper 10B *Approach to redeliberations*). In addition, any alternative that the Board may decide to pursue under this approach may not be supported by interested parties.
27. Finally, the staff are concerned that this approach would limit any further work on reporting financial performance that the Board may decide to undertake or could create a conflict with the results of any such further work.

### **Conclusion and question for the Board**

28. The staff do not recommend providing more specific guidance in the *Conceptual Framework* at this stage for the reasons set out in paragraphs 24-27. Specifically, the staff do not think that revisiting an alternative that has previously been rejected is a fruitful approach. In addition, the staff are concerned about implications of any more specific guidance provided in the *Conceptual Framework* at this stage for any future work on reporting financial performance that the Board may decide to undertake. Further, the staff think that any such guidance would change the question for the Board to answer in setting IFRS Standards rather provide an answer. Finally, this approach would have implications for the Conceptual Framework's project timetable and would probably not lead to a consensus.
29. The staff see merit in both doing nothing in the *Conceptual Framework* at this stage and providing high-level guidance. The staff think that both approaches largely reflect the lack of consensus about reporting financial performance and do not pre-



judge the outcome of any further work on reporting financial performance that the Board may decide to undertake in the future.

30. On balance, the staff recommend providing high-level guidance in the *Conceptual Framework* rather than providing no guidance at all. Doing that would represent a step forward in the debate on reporting financial performance and would be broadly consistent with the overall direction suggested by the IFRS Advisory Council. The staff think that the feedback received on the Exposure Draft would help the Board to distil particular ideas that are largely supported by a broad range of interested parties and reflect those ideas in the *Conceptual Framework*.

**Question for the Board**

Does the Board agree with the staff recommendation to explore providing high-level guidance on reporting financial performance in the *Conceptual Framework* as set out in paragraphs 13-15?