

## International Financial Reporting Standards

# Conceptual Framework for Financial Reporting

AP100—Summary of key messages

Contacts Rachel Knubley [rknubley@ifrs.org](mailto:rknubley@ifrs.org) +44 (0)20 7246 6904

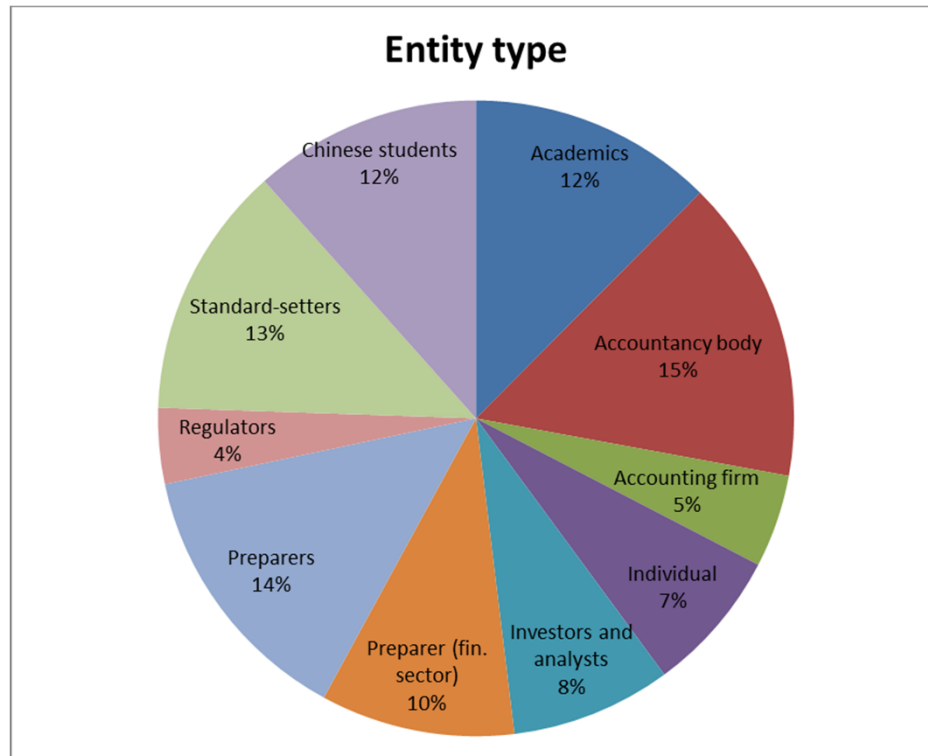
Daniela Marciniak [dmarciniak@ifrs.org](mailto:dmarciniak@ifrs.org) +44 (0)20 7246 6966

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

# Session overview

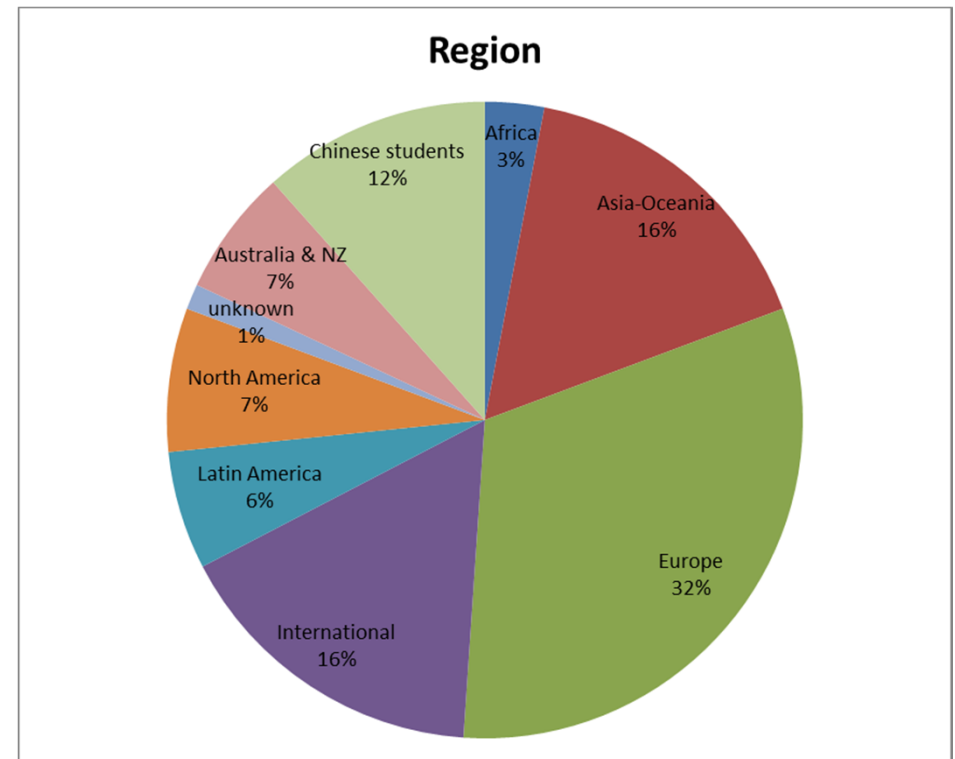
|   |    |
|---|----|
| Overview  | 3  |
| User outreach   | 6  |
| The objective of general purpose financial reporting        | 7  |
| Qualitative characteristics of useful financial information | 8  |
| Financial statements and the reporting entity               | 9  |
| Assets  | 11 |
| Liabilities and equity                                      | 12 |
| Income, expenses and undefined elements                     | 13 |
| Recognition   | 14 |
| Derecognition   | 15 |
| Measurement and capital maintenance                         | 16 |
| Presentation and disclosure                                 | 18 |
| Information about financial performance                     | 19 |
| Business activities   | 21 |
| Long-term investment  | 22 |
| Effects and Updating References Exposure Draft              | 23 |

# Overview (1/3)



- 233 comment letters received
- > 80 outreach meetings

- Comment deadline closed 25 November 2015



## Overview (2/3)

- Most who commented supported Board's decision to revise *Conceptual Framework* and make it high-priority project
- Some said work is a significant improvement on the existing *Conceptual Framework*. However, some think project still needs more work; especially on measurement, and the definition of, and distinction between, profit or loss and other comprehensive income (OCI)
- Some explicitly agreed with Board's approach to update, clarify and fill gaps rather than fundamentally reconsider all aspects
- A few think that Board should not rush to finalise revised *Conceptual Framework* if doing so would compromise on its quality

- Many expressed support for Board's decision to address distinction between liabilities and equity in separate research project (FICE). However, some disagreed and stated that Board should address distinction as part of this project
- Some encouraged Board to undertake a more extensive effects analysis

# User outreach

---

- 19 comment letters
- 20 meetings, including:
  - CMAC
  - User meetings organised by EFRAG
- Most frequently discussed topics:
  - Prudence
  - Stewardship
  - Measurement
  - Profit or loss and OCI
  - Business activities
  - Long-term investment

# The objective of general purpose financial reporting

- Many respondents agreed with increasing the prominence of stewardship within the objective of financial reporting
- Some asked for more guidance on:
  - how the term ‘stewardship’ relates to ‘accountability’
  - the impact on future standard-setting decisions
  - the link between the discussion of buy, sell and hold decisions and the discussion of stewardship
- Some wanted stewardship included as an additional objective
- Some disagreed with giving more prominence to stewardship
- Respondents expressed mixed views about description of primary user group; some wanted to expand it and some wanted to narrow it down

# Qualitative characteristics of useful financial information

- Many supported proposed changes, however, some argued *Conceptual Framework* should:
  - with regard to prudence:
    - acknowledge in main text possibility of selecting asymmetric accounting policies if that results in relevant information;
    - introduce asymmetric prudence rather than cautious prudence; or
    - avoid reintroducing prudence in any form
  - explain measurement uncertainty as an aspect of:
    - faithful representation;
    - relevance and faithful representation; or
    - reliability
  - reintroduce reliability as a qualitative characteristic



# Financial statements and the reporting entity (1/2)

- Broad support for the proposals on the description and boundary of a reporting entity. However, some think more guidance is needed
- Using control to determine the boundaries of a reporting entity is generally welcomed. However, some find the terms ‘direct control’ and ‘indirect control’ confusing, also noting those are not used in IFRS 10 *Consolidated Financial Statements*
- Some support for discussion of combined financial statements, however, more guidance needed on when preparing those statements might be appropriate

# Financial statements and the reporting entity (2/2)

- Many disagreed that consolidated financial statements are more likely to provide useful information than unconsolidated financial statements
- Support for proposed going concern assumption
- Mixed views on the perspective from which financial statements are prepared

- Most regulators, standard-setters, accountancy bodies, and accounting firms broadly agreed with proposed definition of asset
- Preparers more evenly divided. Some were concerned that changes in definition and recognition criteria would mean more ‘low probability’ assets and liabilities recognised
- Some would like more guidance on selecting unit of account
- Some respondents disagreed that executory contracts give combined right / obligation that constitute single asset or liability.  
Suggested:
  - separate right and separate obligation, but
  - different views on whether / when separate right and obligation should be single unit of account

# Liabilities and equity

- Broad agreement with proposed definitions of liability and equity
- Some asked Board to give high priority to addressing problems that arise in classifying financial instruments with characteristics of both liabilities and equity. Most of those agreed Board should explore those problems in the separate FICE project
- Many broadly agreed with proposed description of a ‘present obligation’. However, most banks responding disagreed, expressing particular concern about implications for classification of claims as liabilities or equity
- Some expressed concerns that description of ‘present obligation’, or accompanying guidance, would be difficult to interpret and implement. Some suggested Board conducts further work to test robustness and implications

# Income, expenses and undefined elements

- Most respondents expressed no objections to the proposals:
  - to retain the existing definitions of income and expenses largely unchanged
  - to remove from the *Conceptual Framework* some discussion of various types of income and expenses
  - *not* to define elements for either the statement of changes in equity or the statement of cash flows

- Many broadly agreed with the proposed approach to recognition. Views of preparers and users of financial statements were divided
- Most of those who disagreed prefer to keep existing criteria, and in particular the ‘probability criterion’. Concerns that proposed approach:
  - is too abstract and subjective; and
  - could lead to requirements to recognise assets and liabilities with low probability of inflow or outflow of future economic benefits
- Some suggested to test the impact of the proposals

- Most respondents who commented on derecognition supported the proposed discussion
- Some of the respondents who commented on derecognition stated that derecognition should mirror recognition

- Some suggested further research is needed before measurement chapter is issued. Others suggested that *Conceptual Framework* is issued with only limited guidance, with further research undertaken subsequently
- Support for proposed measurement bases, and for idea that consideration of objective of financial reporting, qualitative characteristics and cost constraint, is likely to result in selection of different measurement bases
- Some think additional measurement bases should be addressed, as well as entry/exit values, and entity-specific and non-entity-specific values



- Agreement that selection of measurement basis should be based on qualitative characteristics, however some think proposed guidance does not provide adequate basis for development of IFRS Standards—further guidance or a clearer conceptual basis is necessary
- Support for consideration of the contribution of an asset or liability as a factor to consider in selecting a measurement basis
- Most responses on Chapter 8 ‘Concepts of Capital and Capital Maintenance’ consider the chapter unsatisfactory

# Presentation and disclosure

- Many respondents generally agreed with Board's proposals on presentation and disclosure. However, some expressed concerns or reservations about particular aspects
- Some disagreed with proposals. A few feared proposed guidance is not sufficient to guide Board in setting future IFRS Standards
- Some expressed concern that no explicit reference to statement of cash flows is made
- Many welcomed work in *Disclosure Initiative* project and supported Board's proposal to develop concepts proposed in the *Conceptual Framework* further
- A few expressed the view that interaction between *Conceptual Framework* and *Disclosure Initiative* project is not entirely clear

- Diverse and often opposite views about presenting information about financial performance. Those views informed respondents' positions on proposals in different ways
- Many who commented disagreed with some or all aspects of the proposals. Many also stated proposed guidance is not conceptual or/and insufficient to assist Board in future standard setting
- A few stated they could accept proposals as starting point and asked Board to revisit Conceptual Framework later. They welcomed project on primary financial statements
- A few cautioned Board against prejudging outcome of future work on reporting financial performance
- Roughly half agreed with description of statement of profit or loss. However, many asked for more guidance on which items are included in profit or loss and which in OCI

- Many disagreed with proposals on use of OCI either because:
  - of different view on what items should be included in OCI; or
  - proposed guidance was deemed insufficient and lacking conceptual basis
- More than half thought some, or all, OCI items should be recycled. However, divided views on proposals:
  - roughly half supported rebuttable presumption for recycling
  - other half did not support because they thought recycling should always be required
- Some stated they are unable to form view on recycling until a conceptual basis for reporting financial performance is developed
- A few believed OCI items should never be recycled

# Business activities

- Almost all who commented agreed that the way in which an entity conducts its business has a role to play in financial reporting. However, those respondents expressed different views on how overarching that role should be and how much guidance should be included in the *Conceptual Framework*
- Roughly one-half of those who commented broadly agreed with the proposals. Others asked the Board to give more prominence to the notions of business activities or business model
- Many respondents did not make the distinction between ‘business model’ and ‘business activities’. Others expressed preference for a particular term or asked the Board to clarify whether it intended to ascribe different meanings to those terms

# Long-term investment

- Many who commented broadly agreed with the Board's approach, ie that the *Conceptual Framework* contains sufficient discussion for the Board:
  - to make appropriate Standard-setting decisions on measurement and presentation of long-term investments; and
  - to address appropriately the needs of long-term investors
- Some respondents agreed with the general direction of the approach, but suggested to develop particular areas further
- Some respondents did not think that the proposals contain sufficient and appropriate discussion to address information needs of long-term investors and/or to assist the Board in making appropriate Standard-setting decisions

- Mixed response to analysis of inconsistencies between existing Standards and proposed *Conceptual Framework*:
  - some agreed with analysis
  - many suggested other possible inconsistencies
  - some asked for more comprehensive effects analysis
- Many agreed that revision of *Conceptual Framework* should not lead to automatic revision of Standards
  - but some asked to address all inconsistencies identified
- Most supported the proposal to replace references to *Framework* with reference to revised *Conceptual Framework*
  - but some were concerned about unintended consequences
- Most respondents agreed with the proposed transition provisions and effective date