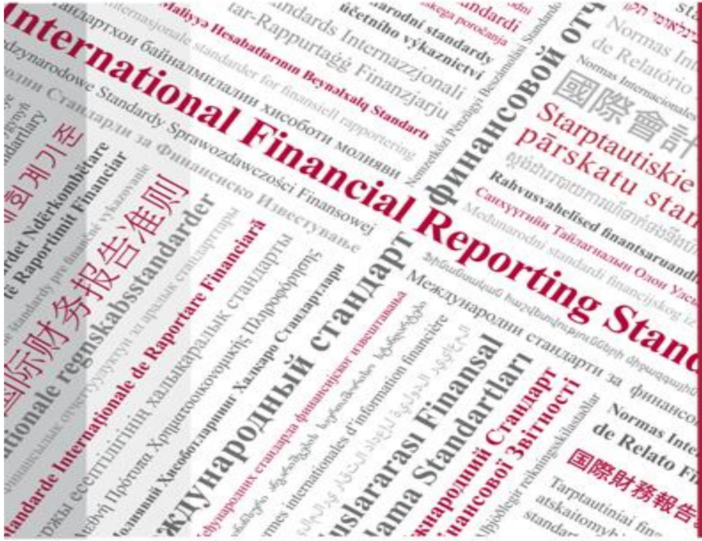
International Financial Reporting Standards



Conceptual Framework

Objective and qualitative characteristics

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Anne McGeachin, Technical Principal

Jelena Voilo, Assistant Technical Manager

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

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Before we start…

- You can download the slides by clicking on the button below the slides window
- This webinar is a recording (it is not live), so we are unable to take any questions
- The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation

Conceptual Framework webinar schedule

Previously-recorded webinars	
17 / 06	Overview of Conceptual Framework Exposure Draft
06 / 08	Chapter 4 and 5—the elements of financial statements: definitions and recognition
13 / 08	Chapter 4—a closer look at liabilities and executory contracts
20 / 08	Chapter 6—measurement
27 / 08	Chapter 7—classification of income and expenses (profit or loss vs. OCI)
03 / 09	Chapter 5—derecognition of assets and liabilities
10 / 09	Chapter 3—the reporting entity
This webinar	
17 / 09	Chapters 1 and 2—objective and qualitative characteristics
Future webinars	
24 / 09	Possible implications of the proposals—with provisions and contingent liabilities case study

Brief history

1989 Framework

Objective & Qualitative Characteristics (QCs)

IASC

DP | ED

2010 Framework

New Chapters — Objective & QCs

Joint with FASB

2013 DP

No changes proposed to Objective & QCs

2015 ED

Revised Chapters — Objective & QCs

IASB only

In response to feedback, limited changes proposed in 2015 ED

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

Objective of financial reporting

Stewardship

Increase the prominence of stewardship **within** the overall objective

To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (1.2)

Users need information to help them assess both

the prospects for future net cash inflows to an entity (1.3)	management's stewardship of the entity's resources (1.3)

Primary users—no change proposed

Potential and existing investors, lenders and other creditors

~~Narrow to existing shareholders only~~

~~Add other groups, eg employees, customers, suppliers, regulators~~

Qualitative characteristics

Prudence – brief history

Deliberate understatement of assets or income, or overstatement of liabilities or expenses is not permitted as it is inconsistent with neutrality

1989 Framework
Includes explicit reference to prudence

2010 Conceptual Framework
Reference to prudence removed

Removed because of concerns that it could lead to 'cookie jar' reserves and earnings manipulation

2013 Discussion Paper
Call (from some) for reintroduction

2015 Exposure Draft
Proposes reintroduction

Prudence - the exercise of caution under conditions of uncertainty - helps make financial statements useful

Why refer to prudence?

Including prudence in the *Conceptual Framework* can result in better information for users

- Helps the IASB set rigorous standards that counteract any management bias
- Helps preparers, auditors and regulators counter natural bias that management has towards optimism
- Helps reduce confusion about what prudence means

What is prudence?

Does not prohibit recognition of unrealised gains - if that information is useful

Prudence - the exercise of caution when making judgements under conditions of uncertainty

- Supports neutrality:
  - means that assets and income are not overstated and liabilities and expenses are not understated
  - does not allow for the understatement of assets and income or the overstatement of liabilities and expenses

No ‘cookie jar’ reserves

IASB rejects asymmetric prudence

Asymmetric prudence

- systematically requiring more evidence to support the recognition of gains (or assets) than of losses (or liabilities)
- systematically requiring the selection of cost-based measurements

The IASB rejects asymmetric prudence because:

- Introducing bias would increase the subjectivity of financial statements and reduce comparability
- Measuring assets and liabilities at current value, even if those current values need to be estimated, can provide useful information

Prudence vs neutrality

A neutral depiction is **without bias**. It is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by investors.

Selection of neutral accounting policies:

- Permits, but does not require, accounting policies that treat assets differently to liabilities and gains different to losses
- Requires impairment for assets measured at cost
- Does not require an entity to recognise the value of the entire entity in its balance sheet
- Does not require the recognition of all assets and liabilities
- Does not require fair value measurement of all assets and liabilities

Key question:
Does the accounting policy result in useful information for investors?

Substance over form

To represent faithfully the transactions and other events, they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form

A faithful representation provides information about the substance of an economic phenomenon instead of merely providing information about its legal form

1989 Framework
Includes explicit reference

2010 Conceptual Framework
Reference removed

2013 Discussion Paper
Call (from some) for reintroduction

2015 Exposure Draft
Proposes reintroduction

Removed as redundant

Reliability

As a qualitative characteristic relabelled ‘faithful representation’

- The term ‘faithful representation’ describes more clearly what is meant by this qualitative characteristic
- Encompasses:
  - completeness
  - freedom from error
  - neutrality (supported by prudence)
  - substance over form

Measurement uncertainty

- Clarify:
  - if an estimate is too uncertain, it might not provide relevant information but
  - a high level of measurement uncertainty does not prevent the use of an estimate if it provides the most relevant information
- There is a trade-off between the level of measurement uncertainty and other factors that make information relevant

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Further information

- Exposure Draft *Conceptual Framework for Financial Reporting*
  http://go.ifrs.org/ED-CF-May2015
- Conceptual Framework website
  http://go.ifrs.org/Conceptual-Framework
- Submit a comment letter
  http://go.ifrs.org/comment_CF
- Snapshot
  http://go.ifrs.org/CFSnapshot2015
- Register for email alerts
  http://eifrs.ifrs.org/eifrs/Register