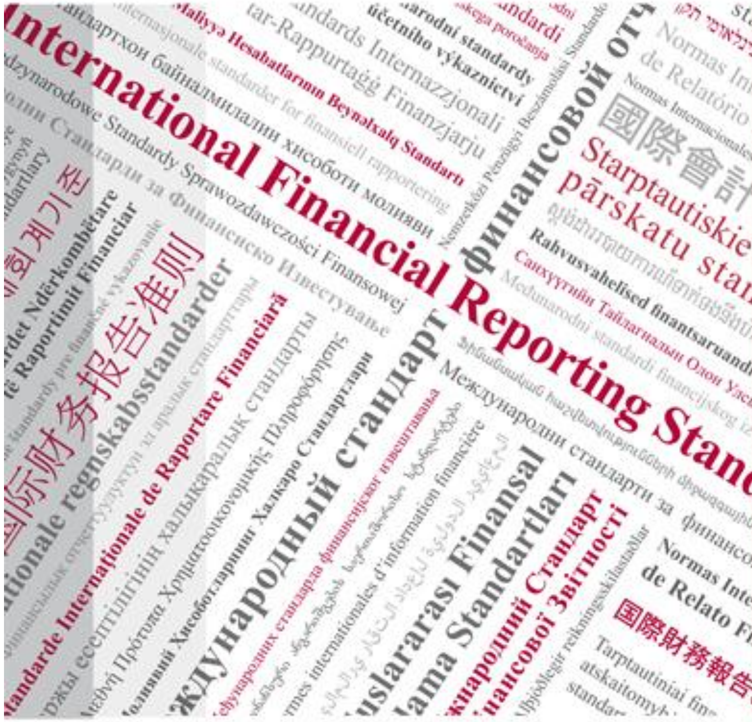
International Financial Reporting Standards



Conceptual Framework
26 July 2013

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Housekeeping items

- Download slides by clicking on the button below the slides window
- Ask a question by typing into the designated text box on your screen and clicking “submit”
- Remember to turn off your pop-up blocker
- A webcast recording will be available on this website http://go.ifrs.org/Conceptual-Framework a few days after this presentation

Session overview

- Why?
- Where are we?
- High level overview of proposals
  - Measurement
  - Presentation & disclosure (including Profit/Loss and OCI)
  - Definitions of elements (including recognition, and boundaries between liabilities/equity)
- Questions

Why?

- Previous project suspended in 2010
- Agenda consultation
  - Priority project
- Purpose of *Conceptual Framework* project
  - Not a fundamental rethink
  - Update, improve and fill in gaps
  - Focus on problems in standard-setting
- Purpose of the Discussion Paper
  - Starting point for discussion and outreach
  - Seek views on key issues from interested parties

Where are we?

- Objective of financial reporting
- Qualitative characteristics

Completed

ED (2010)

- Reporting entity

- Everything else on financial statements

Now

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Objective of financial reporting

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. (OB 2)

Information about resources and claims against the entity, and changes to them

Information to assess effective and efficient management of resources

Qualitative characteristics

- Relevance
- Faithful representation

Fundamental qualitative characteristics

Useful

Enhancing qualitative characteristics

- Comparability
- Understandability
- Verifiability
- Timeliness

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Measurement

The objective of measurement is to faithfully represent relevant information about:

- the resources of the entity and claims against the entity, and changes to those resources and claims
- how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

A single measurement basis may not provide the most relevant information

Number of different measurements used should be smallest number necessary

Measurement (2)

Consider information produced in both:

- the statement of financial position (SFP); and
- the statement(s) of profit or loss and other comprehensive income (OCI)

Most relevant measure depends on:

- How an asset contributes to future cash flows (eg use, sell)
- How the entity will fulfil or settle a liability

Consider cost-benefit

Presentation & disclosures: Current problems

- Not currently addressed
  - **Presentation**
    How to present performance?
    - Profit or loss
    - OCI
  - **Disclosures**
    Poorly targeted
    - *Conceptual Framework* project
    - Disclosure initiatives

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Presentation & disclosure: proposals

Clarify purpose of primary financial statements & notes

- Information about the existing resources, claims against the entity, and changes to those resources and claims

Introduce principles for presentation

- Classification, aggregation & offsetting
- Relationship between primary financial statements

Introduce principles for disclosures

- Materiality
- Communication

Proposed Profit or loss and OCI in the *Conceptual Framework*

Retain profit or loss as a subtotal or total

- Items in profit or loss communicate the primary picture of the return an entity has made on its resources
  - A common starting point for analysis
- Two approaches:
  - Narrow use of OCI
  - Broad use of OCI
- Could still present as one or two statements

Narrow use of OCI

- OCI contains only changes in some current measures (remeasurements) in two categories:
  - ‘Bridging items’: arises where same asset/liability is represented in balance sheet and profit or loss using two different measures
  - ‘Mismatched remeasurements’: arises when impact of linked transactions or other events is not yet recognised eg cash flow hedging and foreign exchange translation
- OCI always recycled
- IASB does not have to use OCI for all items that qualify in the categories above
- Pensions? Investments in equities?

Narrow use of OCI (2)

Profit or loss (default)

All recycle

All recycle

OCI

- Bridging
  - Same asset/liability is represented in balance sheet and profit or loss using two different measures
  - Eg IFRS 9 (ED)

- Mismatched
  - When impact of linked transactions or other events is not yet recognised
  - Eg cash flow hedging

Broad use of OCI (2)

Profit or loss (default)

All recycle

Some recycle, if relevant

OCI

- Bridging
- Mismatched

- Transitory remeasurements (**all conditions**):
  - Realised or settled over the long term
  - Remeasurement expected to reverse fully or change significantly
  - Remeasurement enhances the relevance of profit and loss
- Eg Pension obligations

Existing definitions

Asset [of an entity]	Liability [of an entity]
• a **resource** controlled by the entity	• a **present obligation** of the entity
• as a result of **past events**	• arising from **past events**
• from which **future economic benefits** are **expected** to flow to the entity	• the settlement of which is **expected** to result in an outflow from the entity of resources embodying **economic benefits**

Proved useful tool for many years, but some problems

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Problems with existing definitions and recognition

- Risk of confusing:
  - the resource or obligation, with
  - the inflows or outflows of economic benefits that the resource or obligation may generate
- What does 'expected' mean? How about probability from the recognition criteria?
- More guidance needed?
  - What is a resource?
  - What is an obligation?

Possible revised definitions

Clarify definitions

Asset [of an entity]	Liability [of an entity]
• A **present economic resource** controlled by the entity as a result of **past events**	• a **present obligation** of the entity to transfer an **economic resource** as a result of **past events**

• An economic resource = a right, or other source of value, that is **capable** of producing economic benefits

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Summary of further guidance proposed

To support asset definition

- meaning of ‘economic resource’
- meaning of ‘controlled’

To support liability definition

- constructive obligations
- impact of future events

To support both definitions

- reporting substance of contractual rights and obligations
- executory contracts

Recognition & derecognition

- Recognition
  - Recognise items that meet definitions of elements, unless results do not provide useful information (relevant, faithful representation) or costs exceed benefits
- Derecognition:
  - None in the existing *Conceptual Framework*
  - Mirror image of recognition in most cases, but in some cases may need to consider:
    - Enhanced disclosure, or presentation on a separate line items; or
    - Continued recognition

Liability vs Equity

- Existing definition: the residual interest in the assets of the entity after deducting all its liabilities
- Problem: to distinguish liabilities from equity instruments, Standards (IAS 32) use complex criteria that:
  - conflict with the conceptual definitions
  - are difficult to understand and apply
- Possible approach:
  - Use conceptual definition of a liability:
    - to show obligation to transfer economic resources
  - Use expanded statement of changes in equity:
    - to show wealth transfers between equity holders

Example: Changes in Equity

	Existing shareholders of parent		Non-controlling interests (NCI)	Obligation to issue shares	Total
	Share capital	Retained earnings			
Opening 1 January 20X2	10,000	20,000	4,000	-	34,000
Written option issued	-	-	-	5,000	5,000
Total profit/ comprehensive income for X2	-	3,500	200	-	3,700
Change in fair value of written option	-	1,000	-	-1,000	-
31 December 20X2	10,000	24,500	4,200	4,000	42,700

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Timetable

18 Jul 2013
Issue DP

6-month comment period
(14 Jan 2014)

Q4 2014
Issue ED

End 2015

Final

More information

- Discussion Paper
  http://go.ifrs.org/DP-Conceptual-Framework-July-2013
- Snapshot
  http://go.ifrs.org/Snapshot-DP-Conceptual-Framework-2013
- *Conceptual Framework* website
  http://go.ifrs.org/Conceptual-Framework
- Existing *Conceptual Framework*
  including (Chapters 1 & 3)
  http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/conceptualframework.pdf

Questions


individual comments
questions
expressions of individual views
comments
feedback
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