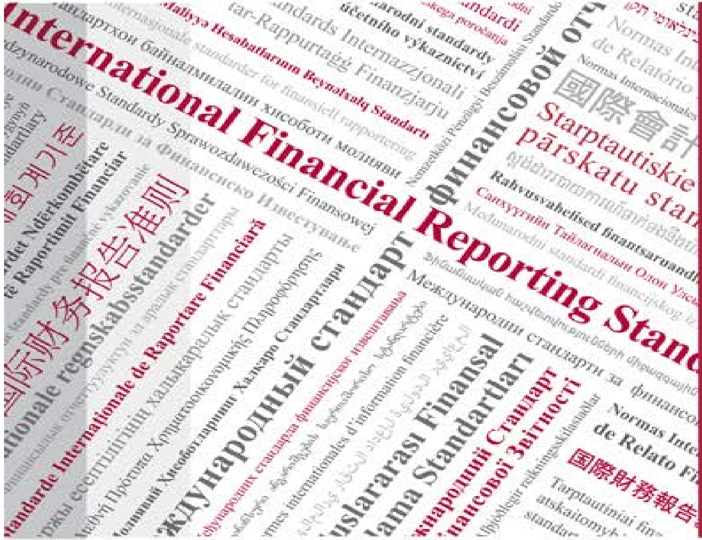
International Financial Reporting Standards



Review of Conceptual Framework

Objective and Qualitative Characteristics

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Before we start…

- You can download the slides by clicking on the button below the slides window
- To ask a question, type into the designated text box on your screen and click submit
- A recording of the webcast will be available after the presentation at http://go.ifrs.org/Conceptual-Framework
- The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation

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Project overview

Project objectives

- Not a fundamental re-think
- Focus on weaknesses that have given problems in practice
- Filling in gaps, and updating and improving existing guidance

Discussion Paper objectives

- Preliminary views
- Starting point for further discussion and consultation
- Seeking your views by 14 January 2014

Project consequences

- New *Conceptual Framework* will not override existing IFRSs

Overview

Objective of this webinar

- Describe and explain the approach in the Discussion Paper to Chapters 1 and 3 of the existing Conceptual Framework
  - Chapter 1 - *The Objective of General Purpose Financial Reporting*
  - Chapter 3 - *The Qualitative Characteristics of Useful Financial Information*

What we will cover

- Background and our proposed approach
- What Chapters 1 and 3 say
- Concerns raised about Chapters 1 and 3
  - Stewardship
  - Reliability
  - Prudence

Questions

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Background and approach in DP

Published in 2010 and used in developing the DP

- Chapter 1 – *The objective of General Purpose Financial Reporting*
- Chapter 3 – *The Qualitative Characteristics of Useful Financial Information*

No fundamental reconsideration

- Been through extensive due process
- Provides sound foundation
- Reconsideration would be unlikely to lead to significant change

Will make changes if other work highlights the need

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)

Users need information to help them assess the prospects for future net cash inflows to the entity (OB 3)

Information about resources and claims against the entity, and changes to them (OB 4)	Information to assess effective and efficient management of resources (OB 4)

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Qualitative characteristics

Fundamental qualitative characteristics

- Relevance
- Faithful representation
  - Complete
  - Neutral
  - Free from error

Useful

Enhancing qualitative characteristics

- Comparability
- Understandability
- Verifiability
- Timeliness

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Concerns raised

Stewardship

Reliability

Prudence

Stewardship – Concerns raised

Pre-2010 Conceptual Framework made explicit reference to Stewardship

- *Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it*

The objective in Chapter 1 does not use the word 'stewardship'

Some believe that this means:

- Information about stewardship is not needed
- Financial reporting is more focused on needs of short-term (rather than long-term) investors

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Stewardship – Chapter 1 approach

Information about stewardship important for meeting the objective of financial reporting

- Users need information about how efficiently and effectively management has discharged its responsibility to use the entity's resources (OB4)

Term 'stewardship' difficult to translate so not used

Stewardship – How used in DP

Stewardship concept used in Conceptual Framework DP:

- Objective of the primary financial statements
- Objective of the notes to the financial statements
- Objective of measurement
- Development of the definitions of assets and liabilities
- Development of the recognition criteria
- Discussion of the purpose of the statement(s) of profit or loss and OCI
- Discussion of business model

Reliability – Concerns raised

Pre-2010 Conceptual Framework stated that ‘reliability’ was a qualitative characteristic of useful financial information

Chapter 3 replaced ‘reliability’ with ‘faithful representation’

- Information is useful if it is relevant and it faithfully represents what it purports to represent

Some have stated that:

- Information is not useful if users cannot rely on it
- The concept of reliability is better understood, and easier to explain, than faithful representation
- Reintroducing reliability would be more likely to result in the use of measurements that are more verifiable and less subject to error

Reliability – Chapter 3 approach

Reliability was not well understood

- Many incorrectly equated reliability with verifiability and freedom from error (verifiability is an enhancing qualitative characteristic in Chapter 3)

Reliability (pre-2010)	Faithful representation
Free from material error or bias	Free from error and neutral
Can be depended upon by users to faithfully represent what it purports to represent	Information is useful if it faithfully represents what it purports to represent
Neutral	Neutral
Complete	Complete
Substance over form	Accounting in accordance with form rather than substance could not result in a faithful representation
Prudence	Not included – see following slides

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Prudence - Description

Pre-2010 Conceptual Framework described prudence as:

- The inclusion of a degree of caution in the exercise of the judgements made under conditions of uncertainty such that assets or income are not overstated and liabilities or expenses are not understated.

The exercise of prudence does not allow for deliberate understatement of assets or income or overstatement of liabilities or expenses

- Inconsistent with neutrality

Concerns raised

Some believe:

- Deliberately using conservative estimates may counteract over-optimistic management estimates
- Removal of prudence could result in the recognition of assets and gains whose existence is uncertain
- Removal of prudence could result in the non-recognition of some possible liabilities and possible losses
- Removal of prudence may increase use of current values (including fair value)

Prudence – Chapter 3 approach

Few would disagree that caution should be exercised when making estimates and judgements under conditions of uncertainty

Prudence not included as an aspect of faithful representation because:

- Inconsistent with neutrality
- Understating assets and overstating liabilities in one period leads to overstatement of financial performance in later periods

Not clear that excluding prudence has led (or will lead) to more widespread use of fair value

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Current position

- We are aware of the concerns raised about Chapters 1 and 3
- Seeking views in the DP on how Chapters 1 and 3 deal with:
  - stewardship
  - reliability
  - prudence
- Will develop our proposals in the light of feedback and comment letters received on the DP

Questions


individual comments
questions
comment
expressions of
individual views
comments
feedback
questions
feedback
dividual comments
questions or comments
expressions of individual views
comments

More information

- Discussion Paper
  http://go.ifrs.org/DP-Conceptual-Framework-July-2013
  – Comments to be received by 14 January 2014

- Snapshot
  http://go.ifrs.org/Snapshot-DP-Conceptual-Framework-2013

- Existing *Conceptual Framework*
  http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/conceptualframework.pdf

- *Conceptual Framework* website
  http://go.ifrs.org/Conceptual-Framework

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Other webcasts

Date	Topic
Tuesday 3 September 2013	Definitions of assets and liabilities and recognition criteria
Friday 13 September 2013	Profit or loss and other comprehensive income (OCI)
Friday 27 September 2013	Definition of equity and distinction between liability and equity elements
Wednesday 2 October 2013	Measurement
Thursday 10 October 2013	Guidance on liability definition—obligations conditional on entity's future actions
Tuesday 22 October 2013	Objective and Qualitative Characteristics
Monday 25 November 2013	Presentation and disclosure

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