

International Financial Reporting Standards



Review of the *Conceptual Framework* Guidance on liability definition—obligations conditional on entity's future actions

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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 a few days 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

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

Examples of variations in IFRS requirements

IFRS	Transactions addressed	Liability before conditions met?	Reason
IAS 37 <i>Provisions</i> + IFRIC 21 <i>Levies</i>	Many – eg levies payable only if entity is operating in a market on a future date.	No	Only obligations ‘existing independently of an entity’s future actions’ are present obligations.
IAS 34 <i>Interim Financial Statements</i>	Lease payments contingent on entity exceeding annual sales threshold.	Yes as sales are made, if expect to exceed threshold.	Entity has ‘no realistic alternative but to make the future lease payments’.
IFRS 2 <i>Share-based payments</i>	Cash-settled payments conditional on entity meeting vesting conditions.	Yes as vesting period progresses.	Entity has received services in exchange for which further payments might be required.

Liability definition proposed in Discussion Paper

A present obligation of the entity
to transfer
an economic resource
as a result of past events.

The amount of the future
transfer is determined by
reference to benefits
received, or activities
conducted, by the entity
before the end of the
reporting period.

View 1

An obligation that:

- arises from past events, and
- is **strictly** unconditional.

The entity has **no** ability to avoid the transfer through its future actions.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

View 2

An obligation that:

- arises from past events, and
- is **practically** unconditional.

The entity does not have **practical** ability to avoid the transfer through its future actions.

View 3

An obligation that:

- arises from past events, and
- may be **either** unconditional **or** conditional on the entity's future actions.

On meeting any further conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.

Fact pattern

Levy charged on entities that operate trains on national rail network.

Levy charged at the end of each calendar year, at 1 per cent of revenue in excess of 100 million currency units (CU) in that year.

Train operator prepares financial statements for financial reporting year to 30 June.

It has earned revenue of CU60 million between 1 January and 30 June.

It expects to have earned revenue of CU120 million by end of calendar year and hence to be charged a levy of CU0.2 million* for the year.

* $(\text{CU}120 \text{ million} - \text{CU}100 \text{ million}) \times 1\%$

Example—levy on revenues above a threshold

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Analysis of whether train operator has a present obligation

Criteria	View 1	View 2	View 3
Past event?	Yes	Yes	Yes
Strictly unconditional?	No		
Practically unconditional?		Probably, in this case	
	↓	↓	↓
Present obligation?	No	Probably, in this case	Yes

'Present' obligation—IASB's preliminary views

View 1

An obligation that:

- arises from past events, and
- is **strictly** unconditional.

The entity has **no** ability to avoid the transfer through its future actions.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

View 2

An obligation that:

- arises from past events, and
- is **practically** unconditional.

The entity does not have **practical** ability to avoid the transfer through its future actions.

View 3

An obligation that:

- arises from past events, and
- may be **either** unconditional **or** conditional on the entity's future actions.

On meeting any further conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.

- Discussion Paper
<http://go.ifrs.org/DP-Conceptual-Framework-July-2013>
 - Discussion of future events in Section 3
 - Includes further examples
 - 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>

Conceptual framework project webcasts

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Date	Topic
Tuesday 3 September 2013	Assets and liabilities—definitions 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
Friday 15 November 2013	Presentation and disclosure