

# International Financial Reporting Standards



## Conceptual Framework

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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

# Session overview

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Reporting Entity

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Timeline and further information

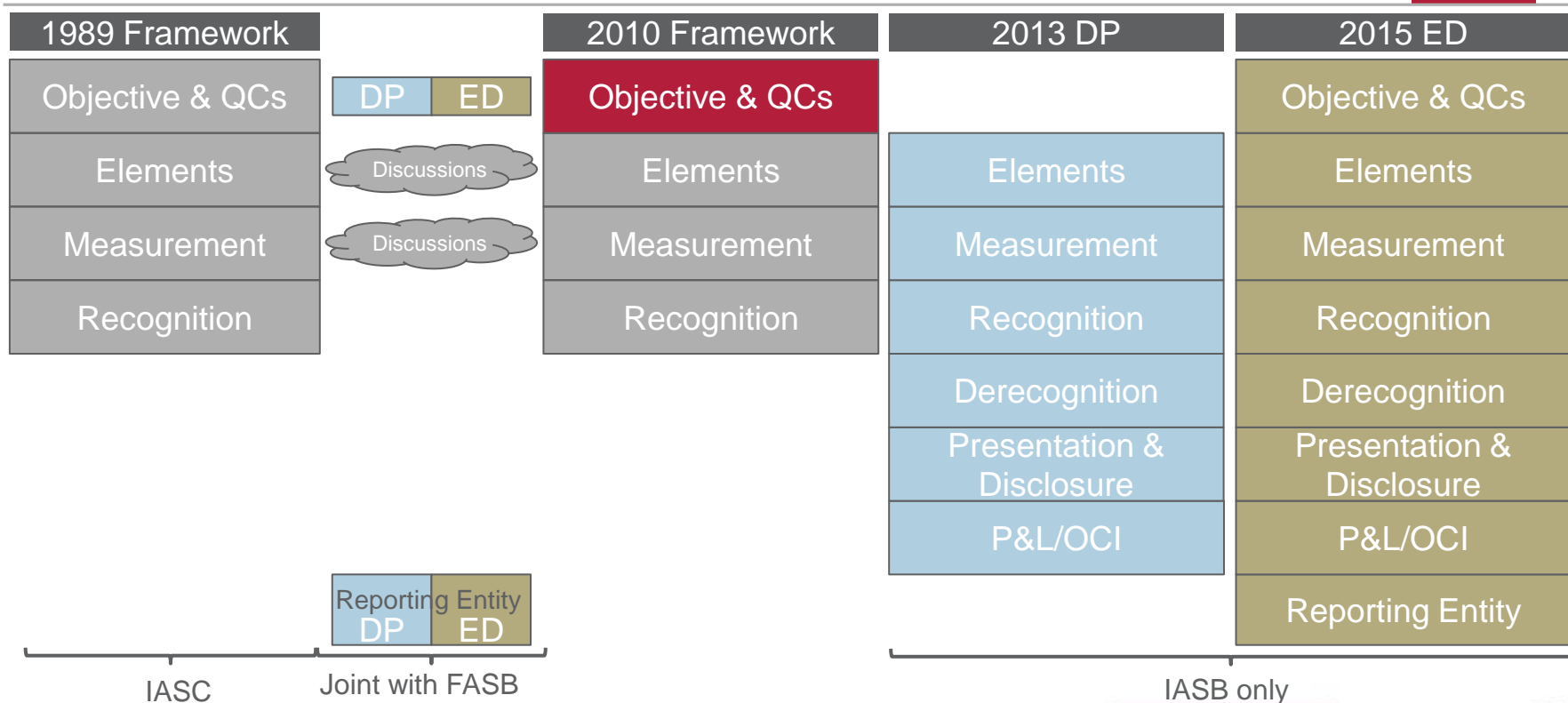
# Background

- Why?
  - Existing *Conceptual Framework* has helped developing, revising and understanding IFRSs. However, some areas were missing, unclear or out of date
- Agenda Consultation
  - Priority project
- Scope of the *Conceptual Framework* project
  - Focus on problems in the real world
  - Update, improve and fill in gaps
  - No fundamental rethink but resuming previous work

- Purpose
  - The new *Conceptual Framework* will provide a coherent basis for developing future Standards
  - It will help other parties to understand and interpret Standards and develop accounting policies
  - It will not have an immediate effect on existing Standards

# Background

## Conceptual Framework timeline

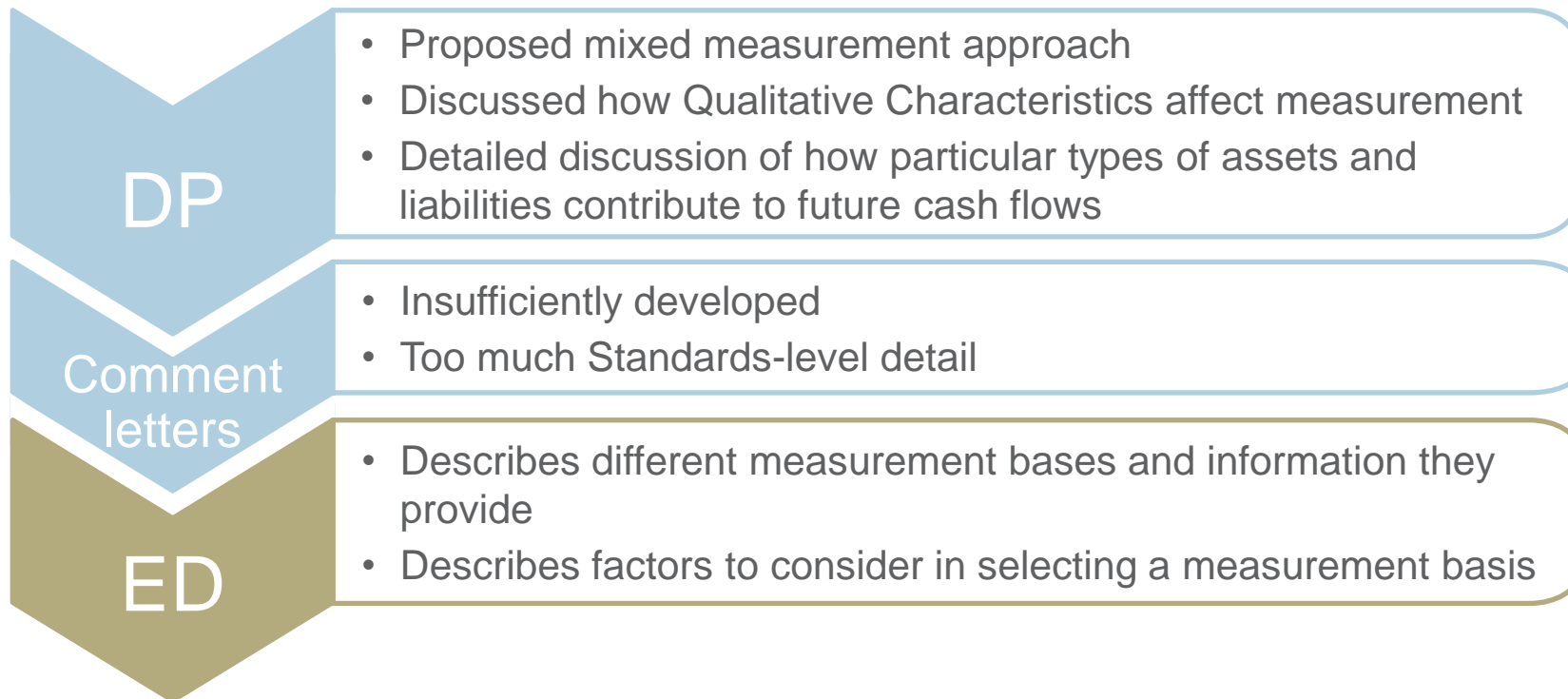


# Measurement



# Measurement

## Overview



# Measurement

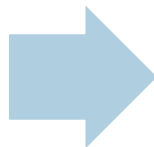
## Measurement bases and techniques

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### Discussion Paper

#### Bases

- Cost-based measurements
- Current market prices
- Other cash flow-based measurements



### Exposure Draft

#### Bases

- Historical cost
- Current value
  - Fair value
  - Fulfilment value/value in use

Cash flow-based measurement techniques

# Measurement

## Mixed measurement approach

Consideration of objective of financial reporting, the qualitative characteristics of useful information and the cost constraint is likely to result in the selection of different measurement bases for different assets and liabilities

### Relevance

- Information produced in both statement of financial position and statement(s) of financial performance
- How an asset or liability contributes to future cash flows
  - depends in part on business activities being conducted
- Characteristics of asset or liability
  - eg nature or extent of variability in cash flows, sensitivity to risks etc
- Level of uncertainty
  - but sometimes a measurement with a high degree of uncertainty is the only relevant measurement

# Measurement

## Factors to consider when selecting a measurement basis

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### Faithful representation

- Not enough on its own - information must also be relevant
- Consider how best to portray link between items

### Others

- Understandability
  - Using new or different measurement bases could reduce understandability
  - Avoid unnecessary changes in measurement bases
- Cost constraint

# Presentation and Disclosure

# Presentation and Disclosure

## Presentation in Other Comprehensive Income (OCI) 1/2

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Discussion Paper	Exposure Draft
<ul style="list-style-type: none"><li>Requires profit or loss as a total or subtotal</li></ul>	<ul style="list-style-type: none"><li>Including income and expense in profit or loss is classification</li><li>Describes profit or loss as the primary, but not the only, source of information about an entity's performance</li><li>Includes rebuttable presumption that income and expenses are included in profit or loss</li><li>Requires profit or loss as a total or subtotal</li></ul>
<ul style="list-style-type: none"><li>Describe the types of items that could be included in OCI</li></ul>	<ul style="list-style-type: none"><li>The IASB could include income and expense in OCI only in limited circumstances:<ul style="list-style-type: none"><li>Only when that enhances relevance of profit or loss for the period; and</li><li>Only income and expense from changes in current measures of assets and liabilities</li></ul></li></ul>

# Presentation and Disclosure

## Presentation in Other Comprehensive Income (OCI) 2/2

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Discussion Paper	Exposure Draft
<ul style="list-style-type: none"><li>Recycle in some or all cases</li></ul>	<ul style="list-style-type: none"><li>Rebuttable presumption that income and expense included in OCI in one period are subsequently included in profit or loss</li><li>If no meaningful basis for identifying such a subsequent period → an indication that income and expense should not be included in OCI</li></ul>



### Exposure Draft

- No major changes to DP
- Objective of financial statements
- Concepts for classification, aggregation and offsetting
- Information in the notes
- Communication principles
- No definition of 'primary financial statements'

New section

### Disclosure Initiative

- Portfolio of projects aimed at improving the effectiveness of disclosures:
  - Principles of Disclosure
  - Review of existing Standards
  - Materiality
  - Amendments to IAS 1 *Presentation of Financial Statements*
  - Amendments to IAS 7 *Statement of Cash Flows*: reconciliation of liabilities from financing activities

# Elements

# Elements

## Definitions of assets and liabilities

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	Existing definitions	Exposure Draft
<i>Asset (of an entity)</i>	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	A present economic resource controlled by the entity as a result of past events.
<i>Liability (of an entity)</i>	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	A present obligation of the entity to transfer an economic resource as a result of past events.
<i>Economic resource</i>	Not defined	A right that is capable of producing economic benefits.

# Elements

## Definition of equity

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DP

- Retain existing definition of equity as a residual interest
- Use conceptual definition of a liability to show obligations to transfer economic resources
- Use expanded statement of changes in equity to show wealth transfers between equity holders

ED

- No amendments to existing definitions at this time
- No detailed guidance on how to distinguish liabilities from equity instruments
- Explore how to distinguish liabilities from equity, including whether to amend the definitions of liability and equity, in a research project

**Present obligation to transfer  
an economic resource**

No practical ability to avoid  
the transfer

AND

The amount is determined by  
reference to past actions or  
benefits received

Consider in  
Standards

- Examples that have proved problematic:
  - Constructive obligations – because of its customary practices, published policies or specific statements, an entity has no practical ability to avoid a transfer of economic resources.
  - An entity has the right to take an action that will avoid a transfer of economic resources, but has no practical ability to take that action.
- Proposed approach: Entity might have no practical ability to avoid a transfer if, eg:
  - Alternative courses of action would cause significant business disruption or have economic consequences significantly more adverse than the transfer itself.
  - The transfer could be avoided only by liquidating the entity or ceasing trading.

# Recognition and Derecognition

# Recognition and Derecognition

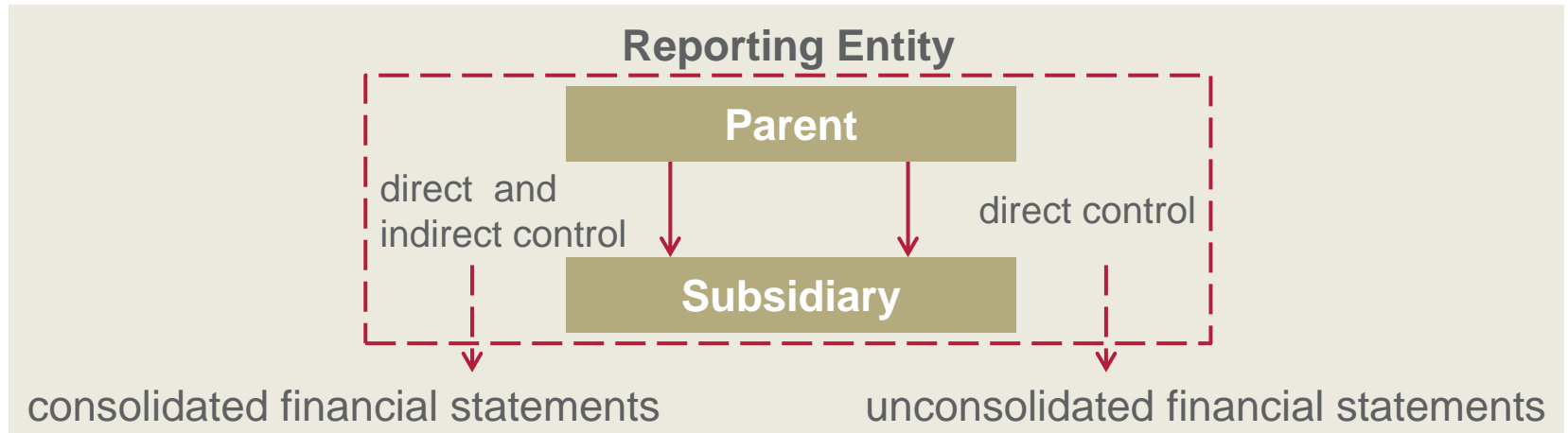
	Existing criteria	Exposure Draft
<i>Recognition</i>	<ul style="list-style-type: none"><li>• Meet the definition of an asset or a liability</li><li>• Probable that any future economic benefit associated with an asset or a liability will flow to the entity</li><li>• The asset or liability has a cost or value that can be measured reliably</li></ul>	<ul style="list-style-type: none"><li>• Meet the definition of an asset or a liability</li><li>• Include factors to consider in deciding whether to recognise an asset or a liability:<ul style="list-style-type: none"><li>• relevance</li><li>• faithful representation and</li><li>• cost/benefit</li></ul></li></ul>
<i>Derecognition</i>	<ul style="list-style-type: none"><li>• None</li></ul>	<ul style="list-style-type: none"><li>• Describe and discuss full derecognition, partial derecognition and continued recognition</li></ul>



# Reporting Entity

# Reporting Entity

- Reporting Entity chapter based on 2010 ED and comments received on that ED
- A reporting entity is an entity that chooses, or is required, to present general purpose financial statements

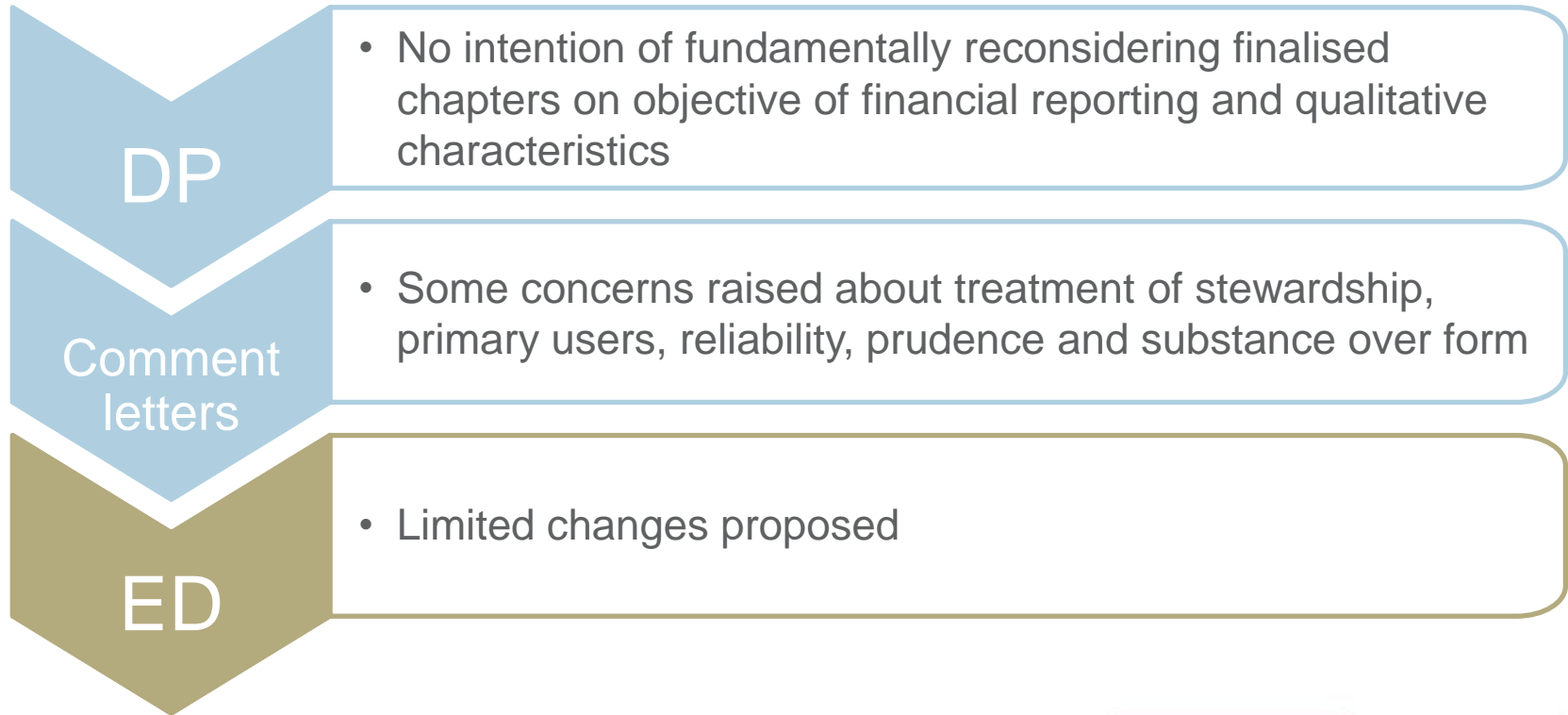


- Generally, consolidated financial statements are more likely than unconsolidated financial statements to provide information that is useful to more users.
- When consolidated financial statements are required:
  - An entity may also choose, or be required, to prepare unconsolidated financial statements.
  - The unconsolidated financial statements should disclose how users may obtain consolidated financial statements.
- The *Conceptual Framework* should not specify which combinations of entities could prepare combined financial statements.

# Objective and Qualitative Characteristics

# Objective and Qualitative Characteristics

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## Stewardship

- Increase the prominence of stewardship within the overall objective

## Primary users of financial statements

- Confirm focus on existing and potential investors, lenders and other creditors
  - Includes long-term investors

# Qualitative Characteristics

## Reliability

- Retain faithful representation as a qualitative characteristic
- However, if an estimate is too uncertain, it might not provide relevant information

## Prudence

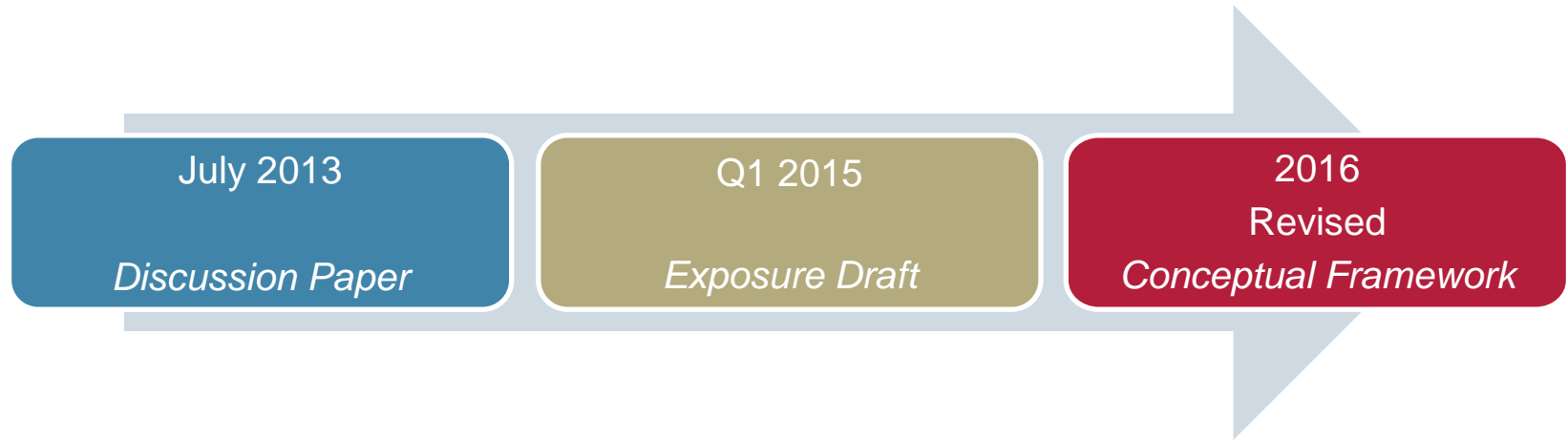
- Reintroduce reference to prudence
- Describe prudence as caution under conditions of uncertainty
- No overstatement or understatement of assets, liabilities, income or expenses (ie neutral)

## Other

- Reintroduce explicit reference to substance over form within description of faithful representation

# Timeline and further information





# Further information

- *Conceptual Framework* website  
<http://go.ifrs.org/Conceptual-Framework>
- Summary of tentative decisions  
<http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/Effect-of-Board-decisions-DP-November-2014.pdf>
- Register for email alerts  
<http://eifrs.ifrs.org/eifrs/Register>

# Questions?

