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

- Background
- Objective and qualitative characteristics
- Elements
- Recognition and derecognition
- Measurement
- Presentation and disclosure
- Timeline and further information
What is the Conceptual Framework?

It is a practical tool that assists:
- the IASB to develop Standards
- preparers to develop consistent accounting policies
- others to understand and interpret IFRS

It underpins the decisions made by the IASB when setting Standards
- It will affect future Standards developed by the IASB

It addresses fundamental issues:
- What is the objective of financial reporting?
- What makes financial information useful?
- What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

It is not a Standard and does not override Standards
**Why are we revising the Conceptual Framework?**

The existing *Conceptual Framework* has proved useful but some improvements are needed.

<table>
<thead>
<tr>
<th>Gaps</th>
<th>Unclear</th>
<th>Out of date</th>
</tr>
</thead>
<tbody>
<tr>
<td>For example, it provides very little guidance on measurement or presentation and disclosure.</td>
<td>For example, it is unclear what role measurement uncertainty should play in decisions about recognition and measurement.</td>
<td>For example, the existing guidance on when assets and liabilities should be recognised is out of date.</td>
</tr>
</tbody>
</table>

Identified as a priority project by respondents to the IASB’s 2011 Agenda Consultation.
History of the Conceptual Framework

1989 Framework
- Objective
- Qualitative characteristics
- Elements
- Measurement
- Recognition

2010 Framework
- Objective
- Qualitative characteristics
- Elements
- Measurement
- Recognition

2013 Discussion Paper
- Elements
- Measurement
- Recognition
- Derecognition
- Presentation & disclosure

2015 Exposure Draft
- Objective
- Qualitative characteristics
- Elements
- Measurement
- Recognition
- Derecognition
- Presentation & disclosure

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# Objective and qualitative characteristics

The objective of general purpose financial reporting is to provide **useful financial information**

<table>
<thead>
<tr>
<th>Relevance</th>
<th>Faithful representation</th>
</tr>
</thead>
</table>
| • Relevant financial information is capable of making a difference in a decision made by users | • 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

• No fundamental rethink of the existing chapters but changes proposed in response to comments received on the 2013 Discussion Paper

Stewardship
• Place more emphasis on the importance of providing information needed to assess management’s stewardship of the entity’s resources

Primary users of financial statements
• Confirm focus on existing and potential investors, lenders and other creditors
  – Includes long-term investors
# Qualitative characteristics

| Prudence | • Reintroduce an explicit reference to the notion of prudence (exercise of caution when making decisions under conditions of uncertainty)  
| | • No overstatement or understatement of assets, liabilities, income or expenses (ie neutral)  
| Reliability | • If an estimate is too uncertain, it might not provide relevant information (measurement uncertainty)  
| | • Trade-off against other factors that affect relevance  
| | • Retain faithful representation as a label for that qualitative characteristic  
| Substance over form | • Reintroduce explicit reference to substance over form as part of faithful representation |
## Elements: Definitions of assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>Existing definitions</th>
<th>Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset (of an entity)</strong></td>
<td>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.</td>
<td>A present economic resource controlled by the entity as a result of past events.</td>
</tr>
<tr>
<td><strong>Liability (of an entity)</strong></td>
<td>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.</td>
<td>A present obligation of the entity to transfer an economic resource as a result of past events.</td>
</tr>
<tr>
<td><strong>Economic resource</strong></td>
<td>Not defined</td>
<td>A right that has the potential to produce economic benefits.</td>
</tr>
</tbody>
</table>
Elements: Liabilities

Present obligation to transfer an economic resource

No practical ability to avoid the transfer

AND

The extent of the obligation is determined by reference to past activities or benefits received

Consider in Standards
Elements: Definition of equity

- 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
## Recognition and derecognition

<table>
<thead>
<tr>
<th></th>
<th>Existing criteria</th>
<th>Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recognition</strong></td>
<td>• Meet the definition of an asset or a liability&lt;br&gt;• Probable that any future&lt;br&gt;economic benefit associated with&lt;br&gt;the asset or liability will flow to the&lt;br&gt;entity&lt;br&gt;• The asset or liability has a cost or&lt;br&gt;value that can be measured&lt;br&gt;reliably</td>
<td>• Meet the definition of an asset or a liability&lt;br&gt;• Relevance&lt;br&gt;• Faithful representation&lt;br&gt;• Cost/benefit</td>
</tr>
<tr>
<td><strong>Derecognition</strong></td>
<td>• None</td>
<td>• Aim is to faithfully represent both:&lt;br&gt;• the entity’s retained assets and liabilities; and&lt;br&gt;• any resulting changes in its&lt;br&gt;assets and liabilities</td>
</tr>
</tbody>
</table>
## Measurement bases

<table>
<thead>
<tr>
<th>Measurement bases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historical cost</strong></td>
</tr>
<tr>
<td>Uses information derived from the transaction or event that created the asset or liability.</td>
</tr>
<tr>
<td><strong>Current value</strong></td>
</tr>
<tr>
<td>Uses information that is updated to reflect conditions at the measurement date.</td>
</tr>
</tbody>
</table>

### Measurement based on:

- **Market participant's assumptions**
- **Entity-specific assumptions**
  - Value in use (assets)
  - Fulfilment value (liabilities)

**Fair Value**
For information provided by a particular measurement basis to be useful, it must be:

- Relevant
- Faithfully represented

**Enhancing characteristics**
- Comparability
- Verifiability
- Timeliness
- Understandability

**Cost constraint**
Factors when selecting a measurement basis

Relevance

• Information produced in both statement of financial position and statement(s) of financial performance
• How the asset or liability contributes to future cash flows
  – depends in part on business activities being conducted
• Characteristics of the 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
## Factors when selecting a measurement basis

<table>
<thead>
<tr>
<th>Faithful representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider how best to portray link between items</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understandability</td>
</tr>
<tr>
<td>Using new or different measurement bases could reduce understandability</td>
</tr>
<tr>
<td>Avoid unnecessary changes in measurement bases</td>
</tr>
<tr>
<td>Cost constraint</td>
</tr>
<tr>
<td>Benefit of providing useful information needs to exceed the cost of doing so</td>
</tr>
</tbody>
</table>
## Presentation and disclosure

<table>
<thead>
<tr>
<th><strong>Exposure Draft</strong></th>
<th><strong>Disclosure Initiative</strong></th>
</tr>
</thead>
</table>
| • Objective and scope of financial statements  
• Classification, aggregation and offsetting  
• Information in the notes  
• Communication principles | • 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 |
## Presentation in profit or loss

This statement is the primary, but not the only, source of information about an entity’s financial performance in the period.

Profit or loss is a required total or subtotal.

Rebuttable presumption that income and expenses are included in profit or loss.

### Statement of profit or loss

<table>
<thead>
<tr>
<th></th>
<th>20X5</th>
<th>20X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from customers</td>
<td>234,439</td>
<td>212,367</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(112,764)</td>
<td>(106,259)</td>
</tr>
<tr>
<td></td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Taxes</td>
<td>(21,546)</td>
<td>(20,587)</td>
</tr>
<tr>
<td></td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td><strong>Profit (loss) for the year</strong></td>
<td><strong>18,897</strong></td>
<td><strong>16,763</strong></td>
</tr>
</tbody>
</table>
### Statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>20X5</th>
<th>20X4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) for the year</td>
<td>18,897</td>
<td>16,763</td>
</tr>
<tr>
<td>Currency translation</td>
<td>68</td>
<td>(51)</td>
</tr>
<tr>
<td>Fair value adjustment cash flow hedging</td>
<td>(2,764)</td>
<td>6,259</td>
</tr>
<tr>
<td>…</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Taxes</td>
<td>(215)</td>
<td>87</td>
</tr>
<tr>
<td>Other comprehensive income for the year</td>
<td>(2,546)</td>
<td>4,253</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>16,351</td>
<td>21,016</td>
</tr>
</tbody>
</table>

**Presentation in OCI**

- Income and expenses included in OCI only if that enhances relevance of profit or loss in the period.
- Presumption that income and expenses included in OCI in one period are subsequently included in profit or loss (recycled).

OCI only for some income and expenses from changes in current measures of assets and liabilities.
Timeline

May 2015
Exposure Draft

26 October 2015
(150 days)
Comment deadline

2016
Revised
Conceptual Framework
Further information

- Exposure Draft *Conceptual Framework for Financial Reporting*
- 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
Questions

expressions of individual views
questions or comments
feedback

expressions of individual views
questions or comments
feedback

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