International Financial Reporting Standards

Conceptual Framework for Financial Reporting

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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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
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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

Gaps	Unclear	Out of date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	For example, the existing guidance on when assets and liabilities should be recognised is out of date.

Identified as a priority project by respondents to the IASB's 2011 Agenda Consultation

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History of the Conceptual Framework

1989 Framework	2010 Framework	2013 Discussion Paper	2015 Exposure Draft
Objective	Objective		Objective
Qualitative characteristics	Qualitative characteristics		Qualitative characteristics
Elements	Elements	Elements	Elements
Measurement	Measurement	Measurement	Measurement
Recognition	Recognition	Recognition	Recognition
		Derecognition	Derecognition
		Presentation & disclosure	Presentation & disclosure
	Reporting entity *Exposure Draft*		Reporting entity

Objective and qualitative characteristics

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

Relevance

- Relevant financial information is capable of making a difference in a decision made by users

Faithful representation

- 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

	Existing definitions	Exposure Draft
Asset (of an entity)	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.
Liability (of an entity)	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.
Economic resource	Not defined	A right that has the potential to produce economic benefits.

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

	Existing criteria	Exposure Draft
Recognition	• Meet the definition of an asset or a liability • Probable that any future economic benefit associated with the asset or liability will flow to the entity • The asset or liability has a cost or value that can be measured reliably	• Meet the definition of an asset or a liability • Relevance • Faithful representation • Cost/benefit

Derecognition	• None	• Aim is to faithfully represent both:
		  • the entity’s retained assets and liabilities; and
		  • any resulting changes in its assets and liabilities

Measurement bases

Measurement bases

Historical cost

Uses information derived from the transaction or event that created the asset or liability.

Current value

Uses information that is updated to reflect conditions at the measurement date.

Measurement based on:

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

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Selecting a measurement basis

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

Faithful representation

- 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
  - Benefit of providing useful information needs to exceed the cost of doing so

Presentation and disclosure

Exposure Draft

- Objective and scope of financial statements
- Classification, aggregation and offsetting
- Information in the notes
- Communication principles

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

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

Statement of profit or loss

	20X5	20X4
Revenue from customers	234,439	212,367
Cost of sales	(112,764)	(106,259)
…	…	…
Taxes	(21,546)	(20,587)
…	…	…
Profit (loss) for the year	**18,897**	**16,763**

Profit or loss is a required total or subtotal

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

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)

Statement of comprehensive income

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

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*
  http://go.ifrs.org/ED-CF-May2015
- 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

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Questions


individual comments
questions
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expressions of individual views
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