



## *Conceptual Framework for Financial Reporting*

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- Timeline
- Objective and qualitative characteristics
- Reporting entity
- Elements
- Recognition
- Measurement
- Presentation and disclosure
- Reporting financial performance
- Upcoming Board discussions

# Timeline



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 substance of the phenomena that it purports to represent
- Complete, neutral and free from error

## Enhancing characteristics

Comparability • Verifiability • Timeliness • Understandability

Cost constraint

## Exposure Draft

- Give more prominence to the need to provide information to assess management's stewardship of the entity's resources

## What we heard

- Many welcomed proposal
- Some wanted stewardship as additional objective
- Some asked for more guidance on implications of proposal
- Some disagreed with proposal

## Tentative decisions

- Clarify link between objective of financial reporting and stewardship. Resource allocation decisions include decisions:
  - to buy, sell or hold
  - to provide or settle loans
  - needed while holding investments

## Exposure Draft

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

## What we heard

- Some support existing description
- Some think primary user group should be holders of equity claims only
- Others would like a broader primary user group that includes regulators and others

## Tentative decisions

- Retain existing description of primary user group

## Exposure Draft

- Reintroduction of 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)

## What we heard

- Many welcomed proposal
- Some would like asymmetric prudence or acknowledgement of asymmetric accounting treatment
- Some objected to proposal because of concerns it could lead to bias

## Tentative decisions

- Confirm that revised CF should include reference to cautious prudence
- Rejected asymmetric prudence
- **September Board meeting:** explore acknowledgement of asymmetric accounting treatment

## Exposure Draft

- If an estimate is too uncertain, it might not provide relevant information
- Trade-off against other factors that affect relevance
- Retain faithful representation as a label for that qualitative characteristic

## What we heard

- Some would like a return to 'reliability'
- Some argued measurement uncertainty is a factor affecting faithful representation

## Tentative decisions

- Describe MU as factor affecting faithful representation
- Clarify in BC that a trade-off can exist between relevance and faithful representation

## Exposure Draft

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

## What we heard

- Most welcomed explicit reference

## Tentative decisions

- Confirm that CF would include explicit statement that faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form

## Exposure Draft

- Entity that chooses or is required to prepare general purpose financial statements
- Does not need to be legal entity and can be portion or two or more entities
- Boundaries of reporting entity based on control

## What we heard

- Many agreed with description of reporting entity
- Some requested more guidance on boundary
- Many disagreed that consolidated financial statements provide more useful information than unconsolidated financial statements

## Tentative decisions

- ***September Board meeting:*** discuss description and boundary of a reporting entity

# 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 has the potential to produce economic benefits.

## Exposure Draft

- Removal of 'expected flows'
- Economic resource is a right
- Guidance on 'present obligation'
- No amendments to equity but separate research project

## What we heard

- Broad support for proposed changes
- Most supportive of expanding liability definition to include transfers that entity has no practical ability to avoid and of decision to deal with liability/equity distinction in separate research project

## Tentative decisions

- Confirm removal of 'expected flows' – instead 'potential to produce/ require'
- Assets: economic resource is a 'right' (not a 'right or other source of value')
- **October Board meeting:** guidance on 'present obligation'

	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 the asset or 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>• Relevance</li><li>• Faithful representation</li><li>• Cost/benefit</li></ul>

## Exposure Draft

- Removal of 'probability threshold' instead focus on relevance and faithful representation
- Cost/ benefit as third criterion

## What we heard

- Broadly supportive of proposed approach
- Some believe proposed recognition criteria are too subjective and require too much judgement
- Some concerns about removal of probability criterion

## Tentative decisions

- Confirm removal of 'probability criterion'
- Confirm relevance and faithful representation as recognition criteria
- Explain need to consider cost/benefit
- Enhance guidance on 'low probability' assets and liabilities

## 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 participants' assumptions

Fair Value

Entity-specific assumptions

- Value in use (assets)
- Fulfilment value (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

## 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 should always exceed the cost of doing so

## Exposure Draft

- Historical cost (incl current cost) vs current value (incl fair value, value in use, fulfilment value)
- Factors to consider when selecting a measurement basis

## What we heard

- Support for mixed measurement approach and suggested measurement bases
- Some suggested undertaking more research before issuing *Conceptual Framework* or to start a separate research project

## Tentative decisions

- Staff to develop existing proposals to provide clearer link between factors to consider and selection of measurement basis
- ***October Board meeting***: further discussion

## Exposure Draft

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

## What we heard

- Broadly supportive of proposals
- Some suggested to identify 'primary financial statements' and their objective
- Some suggested to include references to cash flow statement and statement of changes in equity

## Tentative decisions

- ***September Board meeting:*** discuss presentation and disclosure

## Exposure Draft

- Profit or loss is primary, but not only, source of information about entity's financial performance in the period
- Profit or loss (sub)total required
- Rebuttable presumption: income and expenses are included in profit or loss

## What we heard

- Half agreed with description of statement of profit or loss
- Many expressed a concern that the proposed guidance is insufficient
- Many would like us to define profit or loss/ financial performance

## Tentative decisions

- Confirm proposals except for replacing rebuttable presumption with a principle that income and expenses are included in profit or loss

## Exposure Draft

- Income and expenses included in OCI only if it enhances relevance of profit or loss for the period
- Rebuttable presumption: income and expenses will be recycled
- OCI only for changes in current measures of assets and liabilities

## What we heard

- Many disagreed with proposals on use of OCI
- Diverse views on what should be included in OCI
- Roughly half agreed that OCI items should be recycled

## Tentative decisions

- Confirm proposals except for replacing rebuttable presumption with a principle that income and expenses will be recycled

# Upcoming Board discussions

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- Executory contracts
- Derecognition
- Measurement – factors to consider
- Measurement – other
- Capital maintenance
- Guidance on ‘present obligation’
- Unit of account
- Business model and long term investment
- *Updating References to the Conceptual Framework* Exposure Draft

## Further information

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- Exposure Draft *Conceptual Framework for Financial Reporting*  
<http://go.ifrs.org/ED-CF-May2015>
- Conceptual Framework website  
<http://go.ifrs.org/Conceptual-Framework>
- Snapshot  
<http://go.ifrs.org/CFSnapshot2015>
- Register for email alerts  
<http://eifrs.ifrs.org/eifrs/Register>

individual comments  
questions or  
individual views  
expressions of individual views  
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