



Conceptual Framework

February 2014

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



Session overview

2

- Why?
- Where are we?
- High level overview of proposals and comments received
 - General comments
 - Measurement
 - Profit or loss and other comprehensive income (OCI)
 - Elements of financial statements and recognition
 - Distinction between liabilities and equity
 - Chapters 1 and 3
- Questions

Why?

3

- Agenda consultation
 - Priority project
- Purpose of *Conceptual Framework* project
 - Not a fundamental rethink
 - Update, improve and fill in gaps (see slide 4)
 - Focus on problems in the real world
- Purpose of the Discussion Paper
 - Starting point for discussion and outreach
 - Seek views on key issues from interested parties

Update

- Definitions
 - Assets
 - Liabilities
 - Income
 - Expenses
 - Equity
- Recognition

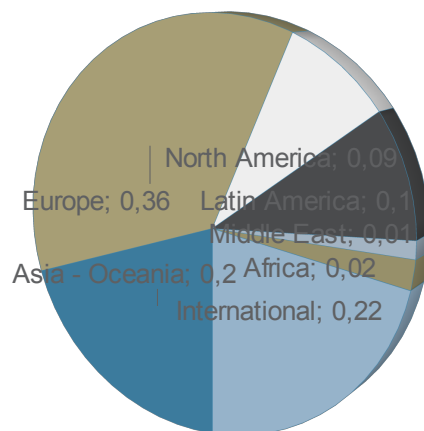
Fill in the gaps

- Profit or loss/other comprehensive income
- Disclosure
- Derecognition
- Measurement

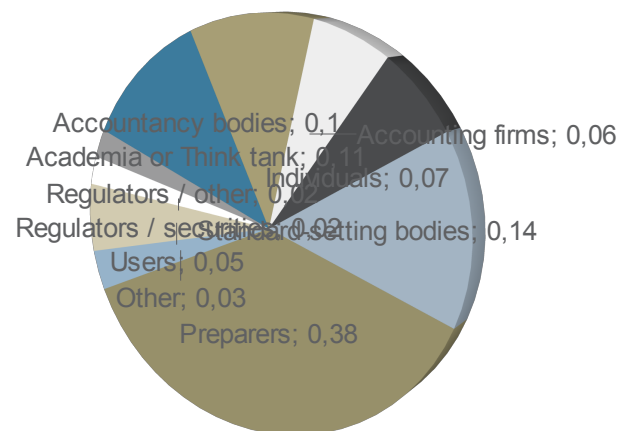
Where are we?

- 145 outreach meetings including roundtables
- Six-month comment period ended 14 January 2014
- 221 letters received as of 24 February 2014

Geographical distribution



Distribution by respondent type



- Support for revision of the *Conceptual Framework*
- Some areas need more work (measurement, OCI)
- Timetable
 - Some support completion by end 2015
 - Others believe we should take more time
- Should review existing Standards and Standards under development for conflicts, but:
 - Some request stability
 - No general need to change Standards because of conflicts

Measurement



income

- Selection depends on how an asset contributes to future cash flows or how the liability is settled
- Consider information produced in both balance sheet and statement of comprehensive



Mixed measurement

High level: What respondents said

8

- Nearly all supported the mixed measurement approach
- Most agreed with suggested approach for selecting a measurement basis
- Some stated:
 - Measurement section needs more work
 - Section included too much standards-level detail

Presentation of profit or loss and OCI



• Always recycle approach (but narrower population)
• Sometimes recycle (broader population)

• Retain profit or loss as a subtotal or total
• Some items should be recorded outside profit or loss
• Two approaches:

- Agenda consultation
- Lack of clarity on role of profit or loss and OCI
- Users ignore OCI
- When recycle?

High level: What respondents said

10

- Nearly all agreed that profit or loss should be required as a total or subtotal (current IAS 1 requirement)
- Many asked that the IASB should define profit or loss or performance
 - but very few provided definitions
- Most respondents thought that items recognised in OCI should be recycled to profit or loss
- Most supported a broader approach to OCI
 - but not necessarily for the reasons discussed in the DP

Existing definition and recognition criteria

11

Asset [of an entity]	Liability [of an entity]
<ul style="list-style-type: none">• a resource controlled by the entity	<ul style="list-style-type: none">• a present obligation of the entity
<ul style="list-style-type: none">• as a result of past events	<ul style="list-style-type: none">• arising from past events
<ul style="list-style-type: none">• from which future economic benefits are expected to flow to the entity	<ul style="list-style-type: none">• the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

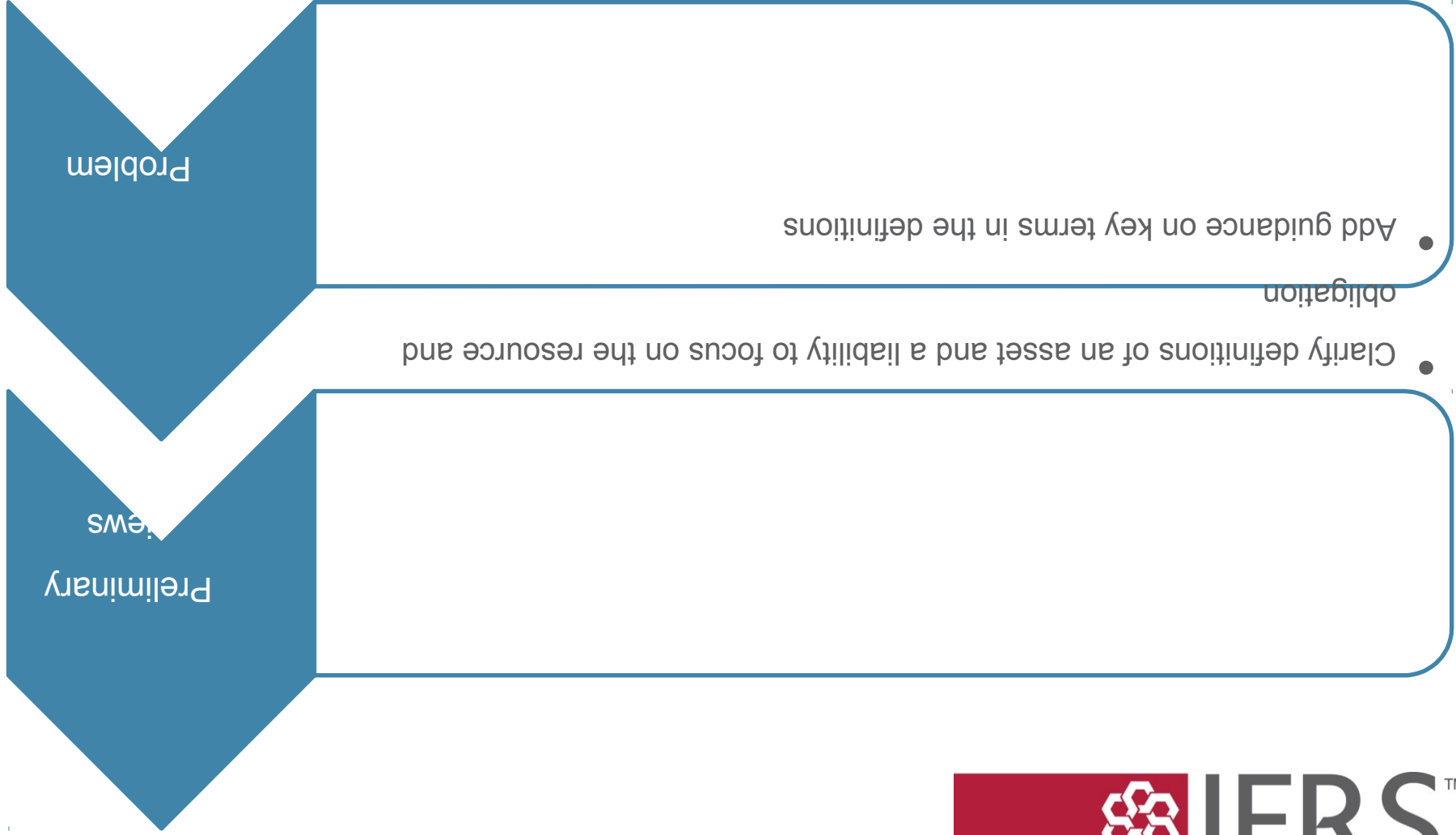
Recognition criteria:

meets definitions, probable and measured reliably

Definitions of elements

IASB and stakeholders may understand the definitions differently

12



High level: What respondents said

13

- Most agreed with the clarifications of the definitions
- Hesitation on viewing assets as a bundle of rights
- No consensus on the point at which an obligation arises if an entity might be able to avoid it

Recognition

May 14
Marty equate 'reliable measurement' with precision

• Lack of clarity on what 'probability' means

Problem

• Treat probability and reliable measurement as indicators in this assessment

• Recognise if information is relevant and faithfully represents the transaction

Preliminary

views

High level: What respondents said

15

- Many agreed with the proposed recognition criteria
- Some favoured keeping the existing explicit criteria on :
 - probability;
 - reliable measurement.
- Some suggested taking into account:
 - enhancing qualitative characteristics;
 - prudence.

Equity / liability distinction

- are difficult to understand and apply
- conflict with the conceptual definitions

• To distinguish liabilities from equity instruments, Standards use complex criteria that:



High level: What respondents said

- Respondents agreed that current Standards create confusion
- Most agreed with the preliminary views at a high-level:
 - mixed views regarding the details;
 - mixed views as to whether it should be addressed within the Conceptual Framework project
- Mixed views on re-measurement (wealth transfer):
 - many supported additional information
 - but do benefits outweigh the costs?

Chapters 1 and 3

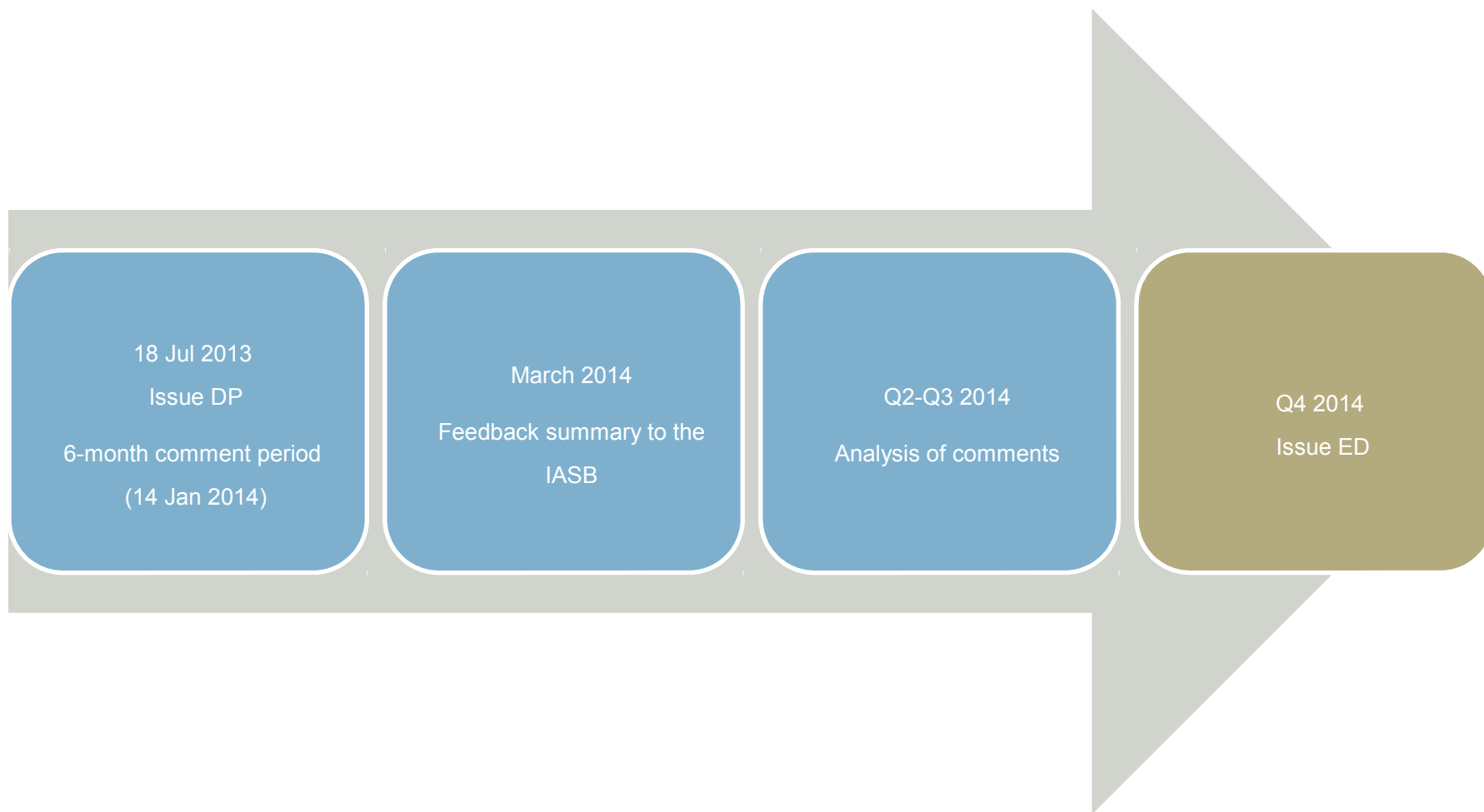
Approach in Chapters 1 and 3 to the concepts of stewardship, reliability and prudence

Problem

The IASB does not intend to fundamentally reconsider Chapters 1 and 3

Preliminary
views

- Most respondents asked to reconsider at least some aspects of Chapters 1 and 3, such as:
 - treatment of stewardship;
 - the decision to remove any reference to the concept of prudence;
 - the decision to replace the fundamental characteristic of reliability with that of faithful representation;
 - the primary user of financial statements.



More information

- Discussion Paper

<http://go.ifrs.org/DP-Conceptual-Framework-July-2013>

- Snapshot

<http://go.ifrs.org/Snapshot-DP-Conceptual-Framework-2013>

- *Conceptual Framework* website

<http://go.ifrs.org/Conceptual-Framework>

- Comment letters

<http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Discussion-Paper-July-2013/Pages/Comment-letters.aspx>

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