



# Conceptual Framework

## February 2014

Philippe Danjou, Board member

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



## Session overview

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- 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?

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- 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

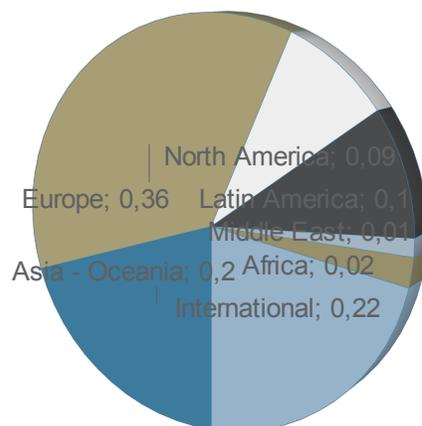
## Fill in the gaps

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

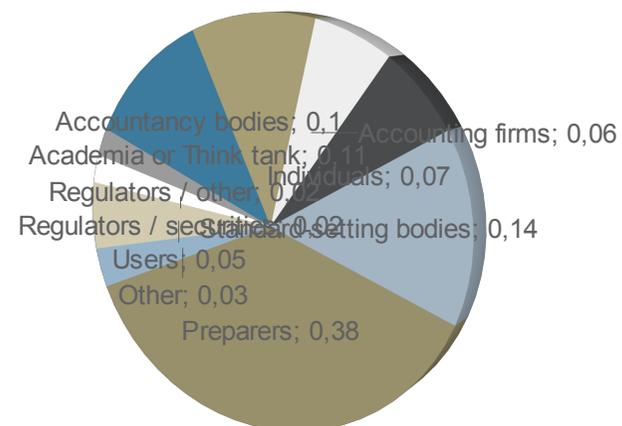
## Where are we?

- 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

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- 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

## High level: What respondents said

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- 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

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

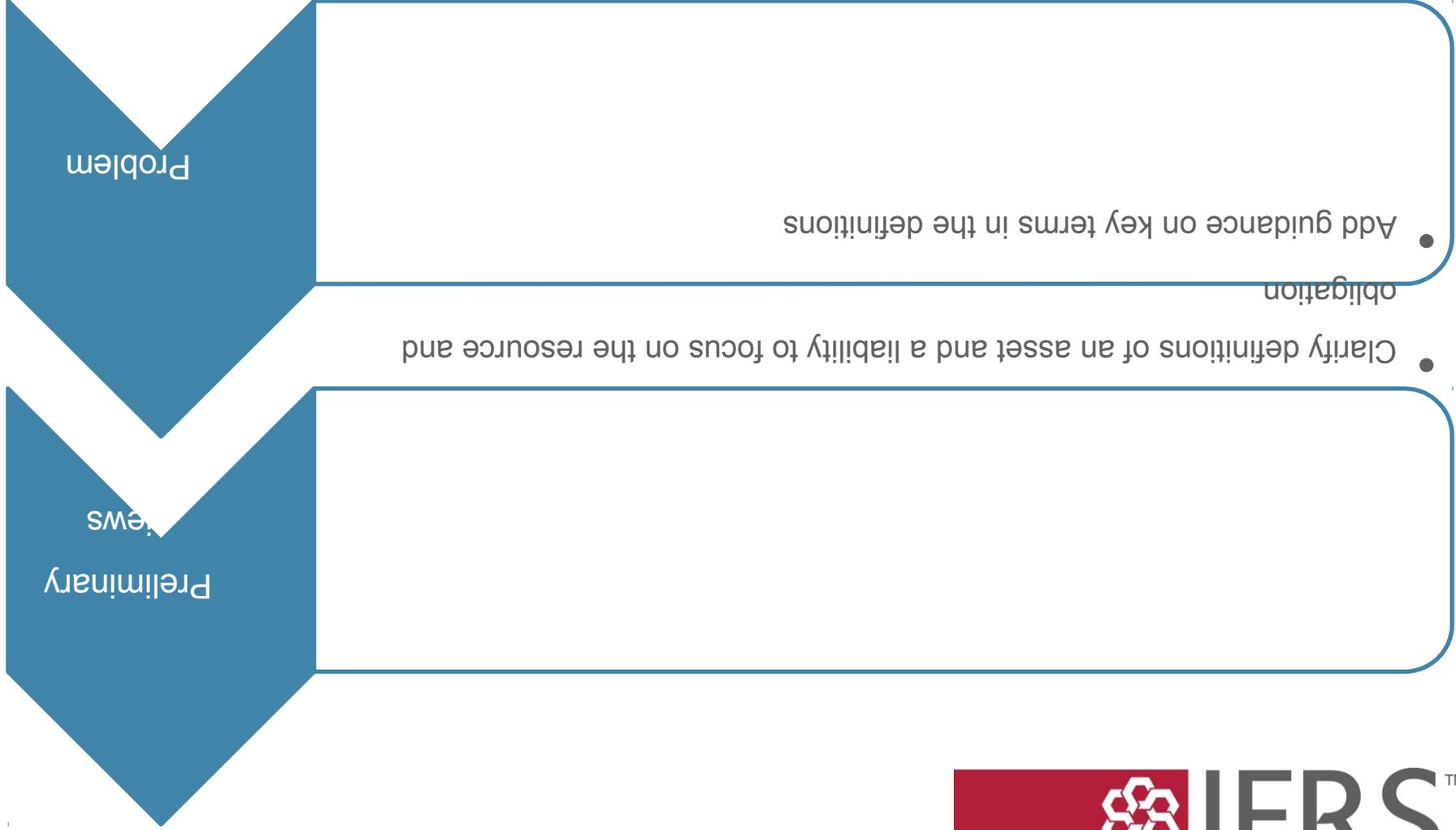
Recognition criteria:

meets definitions, probable and measured reliably

## Definitions of elements

IASB and stakeholders may understand the definitions differently

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## High level: What respondents said

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- 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

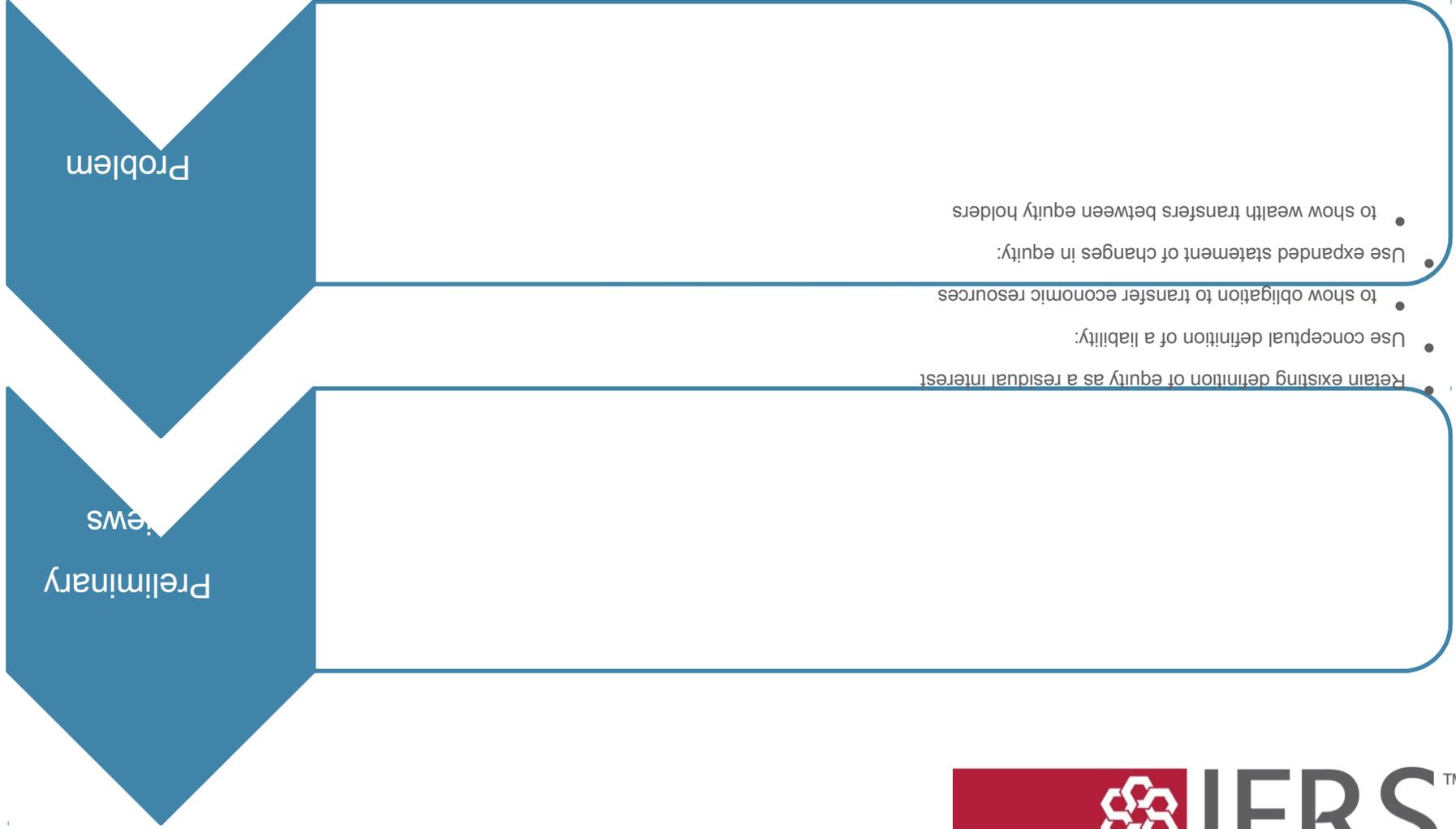
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- Many agreed with the proposed recognition criteria
- Some favoured keeping the existing explicit criteria on :
  - probability;
  - reliable measurement.
- Some suggested taking into account:
  - enhancing qualitative characteristics;
  - prudence.

# 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:



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

## 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

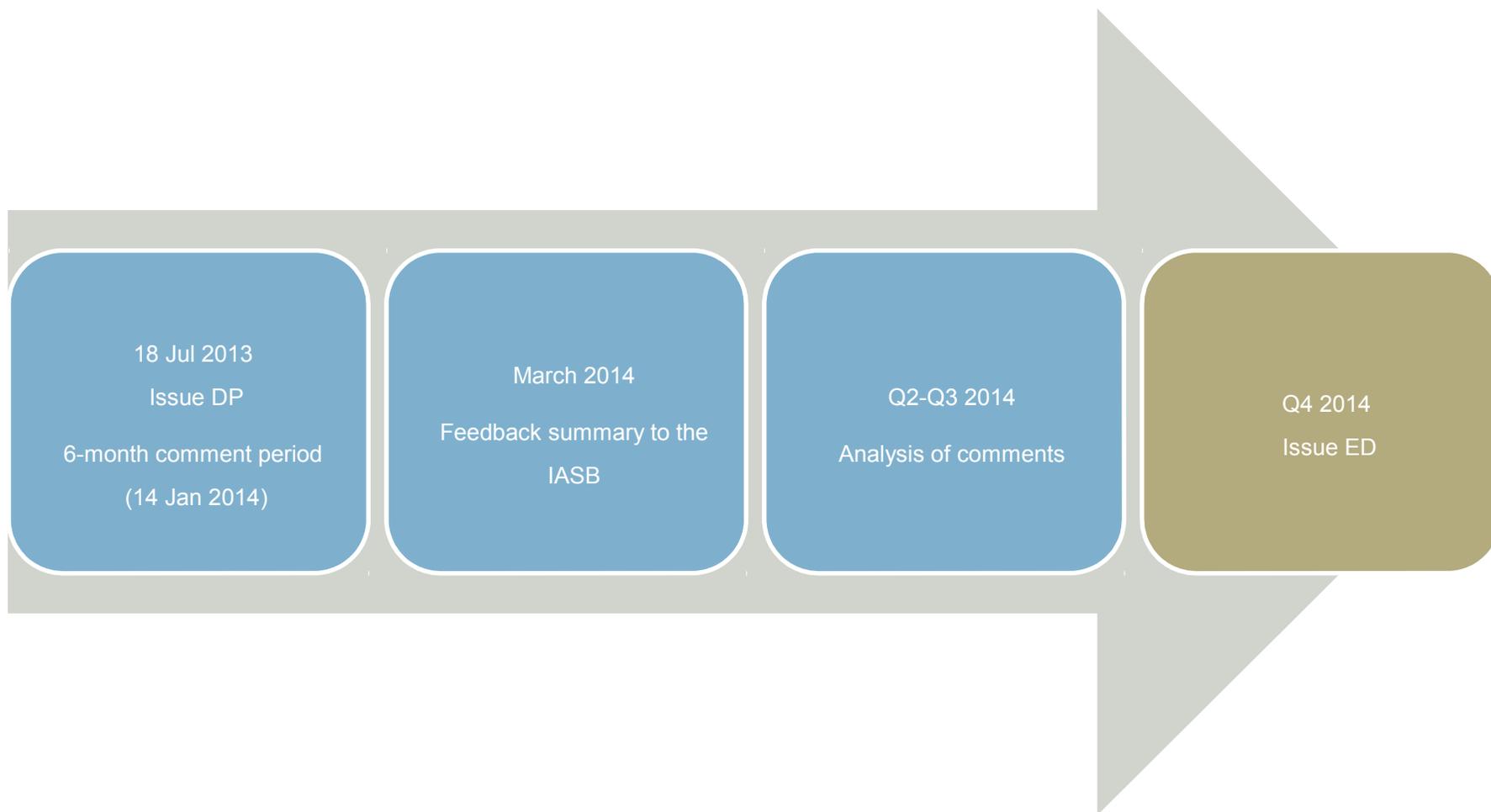
Approach in Chapters 1 and 3 to the concepts of stewardship, reliability and prudence

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>

individual comments  
**view**  
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