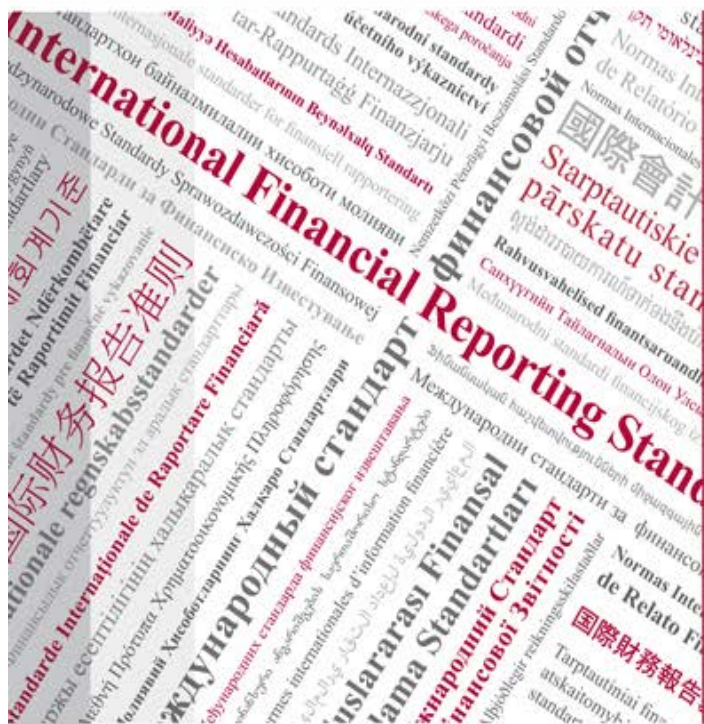


International Financial Reporting Standards



Conceptual Framework December 2013 IPSASB

Ian Mackintosh, IASB Vice-Chairman

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

- High level overview of the IASB's *Conceptual Framework* Discussion Paper
 - Why?
 - Where are we?
- Focus on topics that are of mutual interest
- Comparison between IPSASB's proposals and IASB's preliminary views
- Questions
- Further information on the IASB's DP

High level overview of the IASB's *Conceptual Framework* Discussion Paper

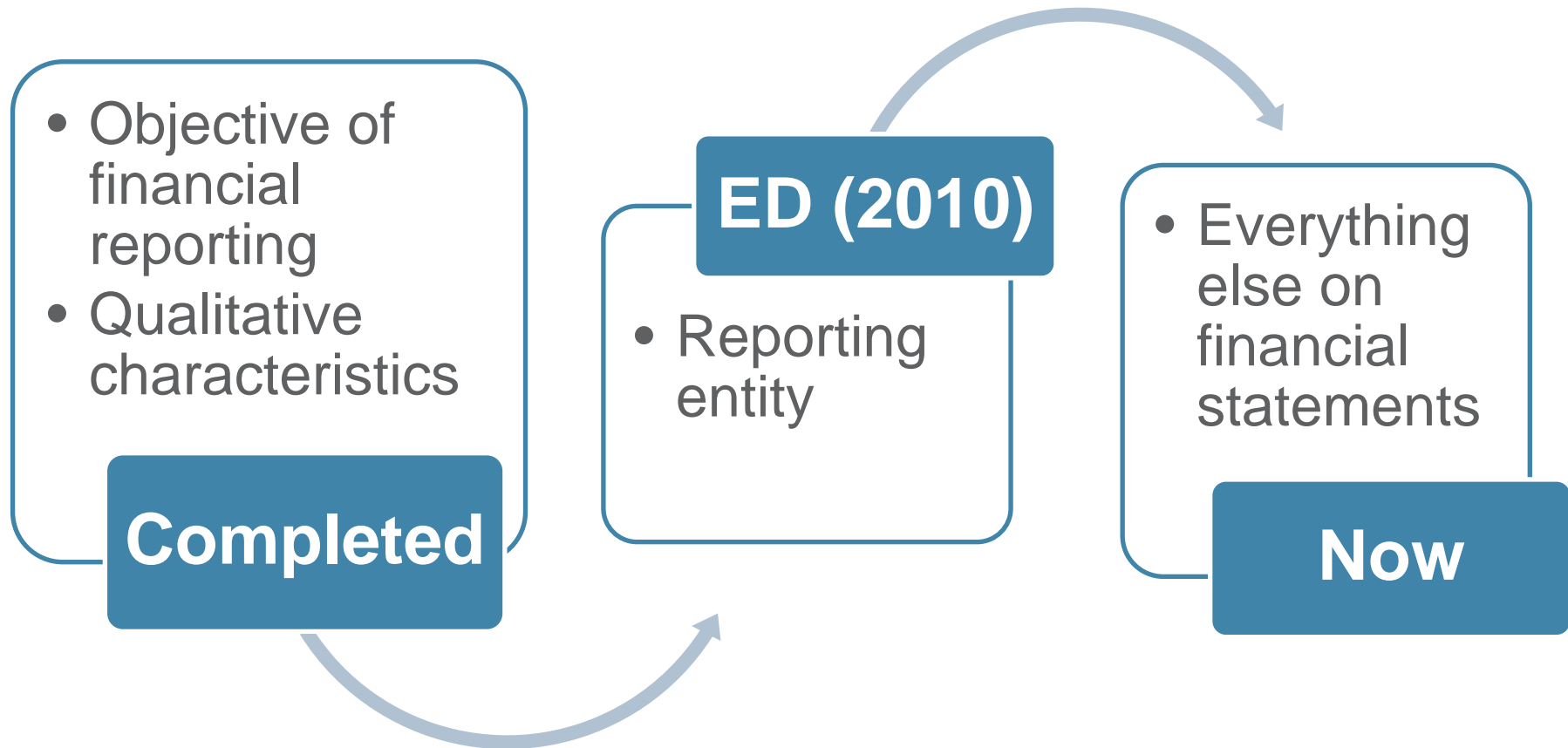
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Why?

- Previous project suspended in 2010
- Agenda Consultation
 - Priority project
- Purpose of *Conceptual Framework* project
 - Not a fundamental rethink
 - Update, improve and fill in gaps
 - 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

Where are we?

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Status of *Conceptual Framework*

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Not a Standard or Interpretation

- High-level concepts only
- Does not override any specific Standard or Interpretation

IASB may issue IFRSs that conflict with the *Conceptual Framework*

- If necessary to meet overall objective of financial reporting
- IASB must describe and explain reason for departure

Some aspects intended for use by the IASB only

- Not to be used by preparers in developing accounting policies (eg when to present items in OCI)

Topics covered in the DP

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- Purpose and status of the *Conceptual Framework*
- Elements of financial statements
 - Definitions of assets and liabilities
 - Recognition and derecognition
 - Distinction between liabilities and equity
- Measurement
- Presentation and disclosure
- Profit or loss and other comprehensive income (OCI)
- Other issues:
 - Business model
 - Going concern
 - Unit of account
 - Capital maintenance
 - Concerns raised in Chapters 1 & 3: prudence, reliability, stewardship

Elements: Existing definitions

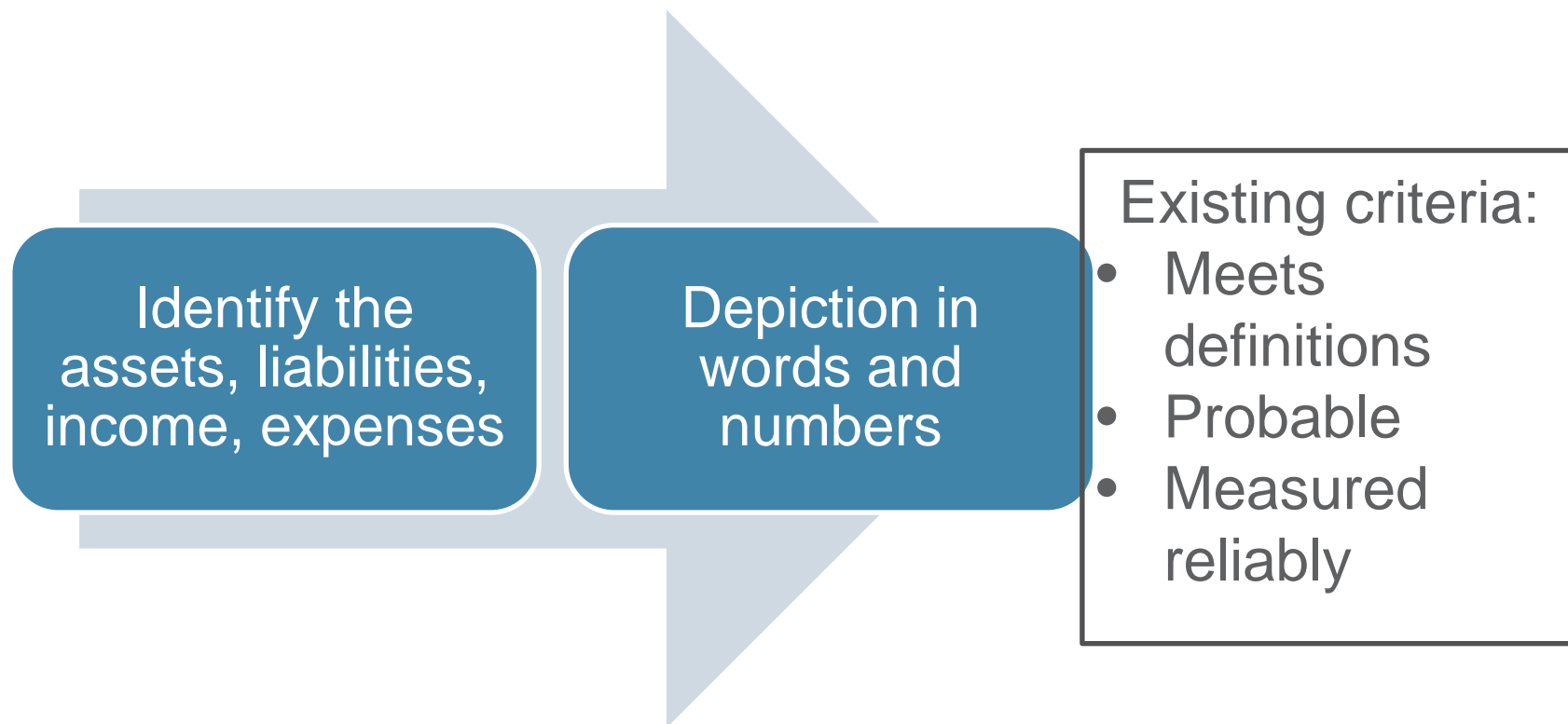
8

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

Proved useful tool for many years, but some problems

Recognition: existing

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Proved useful tool for many years but for some problems

Some problems with existing definitions and recognition criteria

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Confusion on which is the asset or liability?

the resource vs inflows of economic benefits that the resource may generate

the obligation vs outflows of economic benefits that the obligation may generate

What is the role of uncertainty?

Definitions: 'Expected'

Recognition criteria: 'Probable'

- Same meaning?
- Minimum threshold?
- Expected: Statistical meaning (eg mean)?
- Will it occur vs whose inflow/outflow?

Elements: Possible revised definitions

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Clarify definitions

Asset [of an entity]	Liability [of an entity]
<ul style="list-style-type: none">• A present economic resource controlled by the entity as a result of past events	<ul style="list-style-type: none">• a present obligation of the entity to transfer an economic resource as a result of past events
<ul style="list-style-type: none">• An economic resource = a right, or other source of value, that is capable of producing economic benefits	

'Present' obligation contingent on an entity's future actions

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View 1

An obligation that:

- arises from past events, and
- is **strictly** unconditional.

The entity has **no** ability to avoid the transfer through its future actions.

The amount of the future transfer is determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period.

View 2

An obligation that:

- arises from past events, and
- is **practically** unconditional.

The entity does not have **practical** ability to avoid the transfer through its future actions.

View 3

An obligation that:

- arises from past events, and
- may be **either** unconditional **or** conditional on the entity's future actions.

On meeting any further specified conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.

- Recognition
 - Recognise items that meet definitions of elements, unless results do not provide useful information (relevant, faithful representation) or costs exceed benefits
- Derecognition:
 - None in the existing *Conceptual Framework*
 - Mirror image of recognition in most cases, but in some cases may need to consider:
 - Enhanced disclosure, or presentation on a separate line items; or
 - Continued recognition

The objective of measurement is to faithfully represent relevant information about:

- the resources of the entity and claims against the entity, and changes to those resources and claims
- how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

A single measurement basis may not provide the most relevant information (see slide 15 for measurement categories)

Number of different measurements used should be smallest number necessary

Measurement (2)

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Consider information produced in both:

- the statement of financial position (SFP); and
- the statement(s) of profit or loss and other comprehensive income (OCI)

Most relevant measure depends on:

- How an asset contributes to future cash flows (eg use, sell)
- How the entity will fulfil or settle a liability

(see slides 16 and 17 for further information)

Consider cost-benefit

Measurement categories

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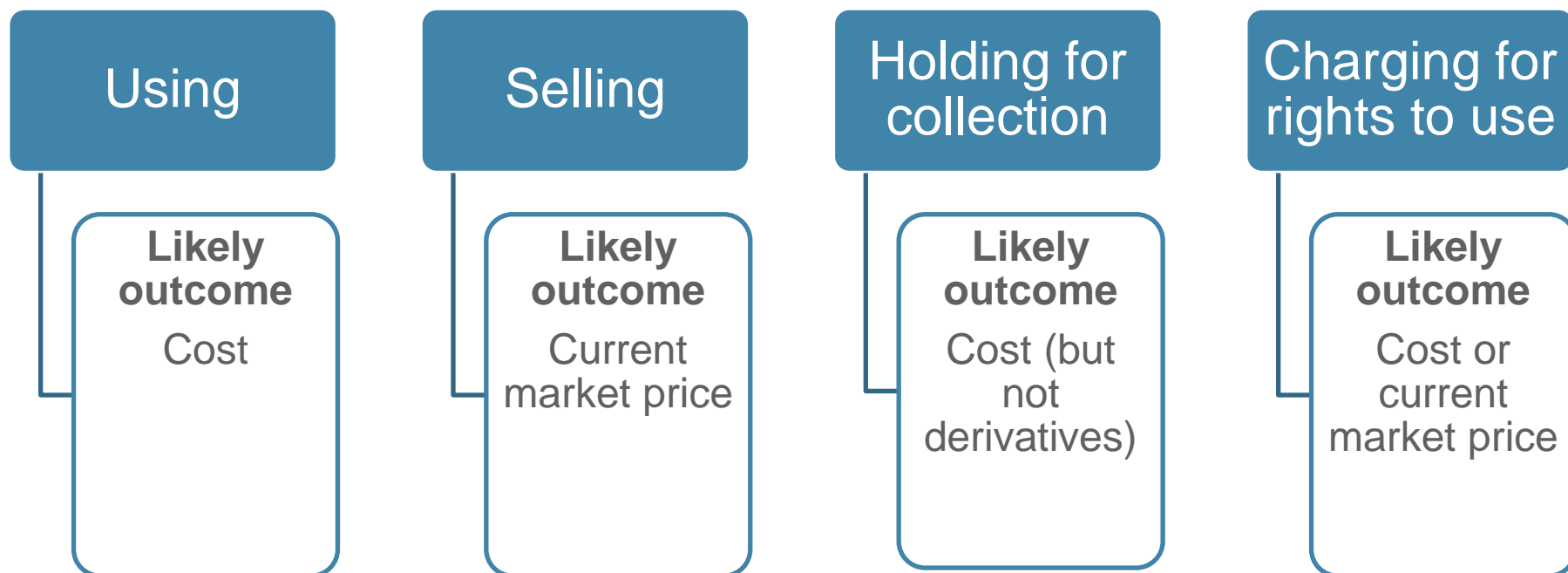
Cost (adjusted
for depreciation,
impairment
etc...)

Current market
prices (including
fair value)

Other cash-flow
based measures

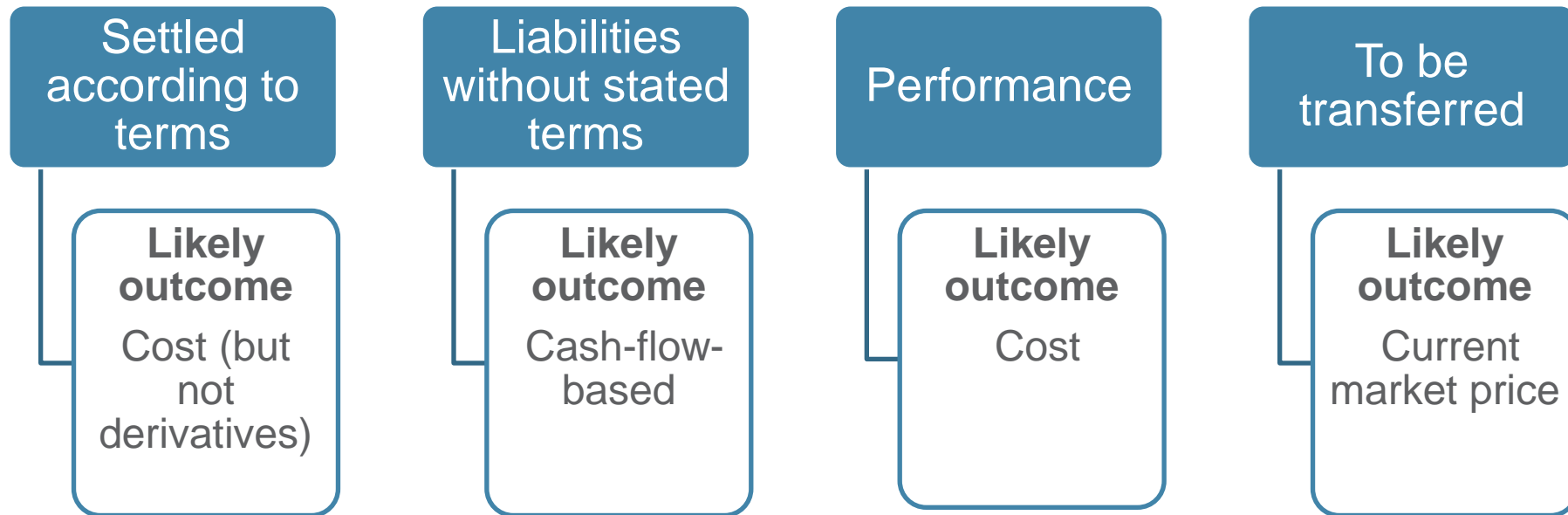
Selecting a measurement - Assets

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Selecting a measurement - Liabilities

18



Profit or loss and OCI: suggested approaches

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IASB's preliminary view: Retain profit or loss as a subtotal or total

- Profit or loss communicates the primary picture of the return an entity has made on its resources
- Not define financial performance or profit or loss
- Some items of income or expense should be reported outside profit or loss (in OCI)
- Two approaches to distinguish profit or loss and OCI:
 - Narrow approach: less items in OCI, always recycled
 - Broad approach: more items in OCI, sometimes recycled

Alternative approach

- No subtotal (ie profit or loss or OCI) defined in the *Conceptual Framework*
- No recycling
- Not well supported

Liabilities/equity: Suggested change to Statement of Changes in Equity

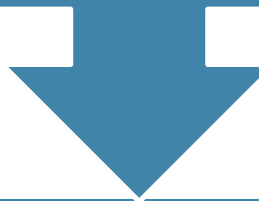
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	Existing shareholders of parent		Non-controlling interests (NCI)	Obligation to issue shares	Total
	Share capital	Retained earnings			
Opening 1 January 20X2	10,000	20,000	4,000	-	34,000
Written option issued	-	-	-	5,000	5,000
Total profit/ comprehensive income for X2	-	3,500	200	-	3,700
Change in fair value of written option	-	1,000	-	-1,000	-
31 December 20X2	10,000	24,500	4,200	4,000	42,700

Objective of financial reporting

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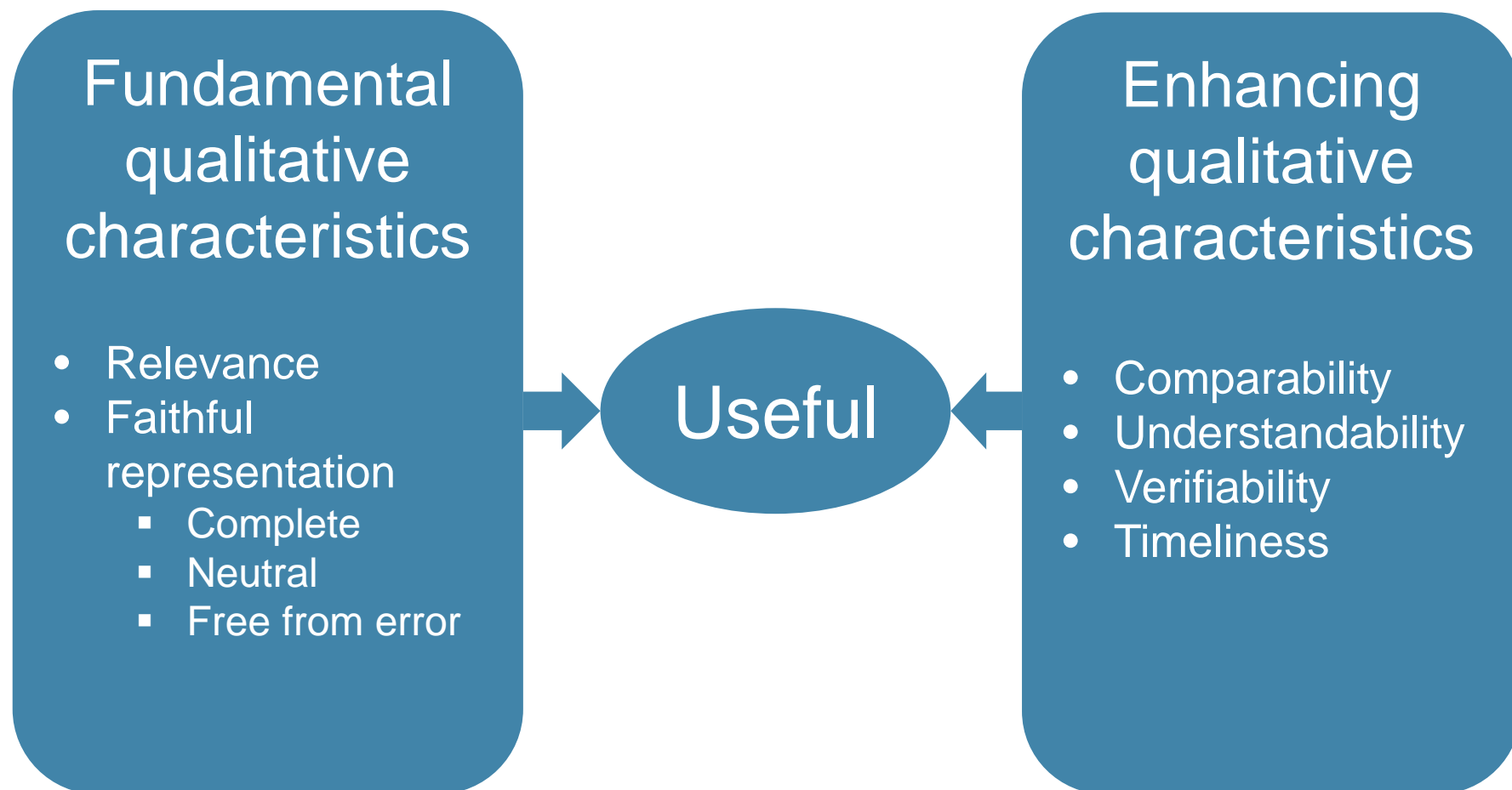
To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. (OB 2)



Users need information to help them assess the prospects for future net cash inflows to the entity (OB 3)

Information about resources and claims against the entity, and changes to them (OB 4)

Information to assess effective and efficient management of resources (OB 4)



Chapters 1 & 3 - Concerns raised

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Stewardship

- Chapter 1 does not give 'stewardship' enough prominence

Reliability

- Chapter 3 replaced 'reliability' with 'faithful representation'

Prudence

- Reference to prudence removed from *Conceptual Framework*

18 Jul 2013
Issue DP
6-month comment
period
(14 Jan 2014)

Q4 2014
Issue ED

End 2015
Final

Comparison between IASB's and IPSASB's *Conceptual Framework*

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Elements

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- Both focus on elements of financial statements
- But some different elements identified:

IASB (based on DP)	IPSASB (based on ED)
Statement of financial position: Assets and liabilities	Assets, liabilities, deferred inflows, deferred outflows
Statement of comprehensive income: Income and expense	Income and expense
Statement of cash flows: Cash receipts and cash payments	Not discussed
Statement of changes in equity: Contributions to equity, distributions of equity, transfers between classes of equity	Ownership contributions, ownership distributions

- Both have a mixed measurement approach
- Broadly similar types of measurement categories

IASB (based on DP)	IPSASB (based on ED)
Cost-based measurements	Historical
Current market prices	Market value
Other cash-flow-based measurements	Replacement cost Net selling price Value in use Cost of release Assumption price Cost of fulfilment

Measurement (2)

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- Selection of measurement bases

IASB (based on DP)	IPSASB (based on ED)
<ul style="list-style-type: none">1) Based on how the asset or liability contributes to the entity's future cash flows eg how is the asset is used (sell or use in combination with other assets)2) Consider the nature of the information produced, not only in the statement of financial position but also in profit or loss / comprehensive income	<p>To provide users of GPFR with information about:</p> <ul style="list-style-type: none">(a) Financial capacity—the capacity of the entity to continue to fund its activities and meet its operational objectives in the future;(b) Operational capacity—the physical and other resources available to support the provision of services in future periods; and(c) The cost of services provided in the period;

Presentation and disclosure

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- Different focus:
 - IASB focuses on financial statements
 - IPSASB's encompasses GPFR, and financial and non-financial information
- Terminology defined differently

IASB (based on DP)	IPSASB (based on ED)
<p>Presentation = disclosure on the face of an entity's primary financial statements</p> <p>Disclosure = process of providing useful information about the reporting entity to users</p> <p>(Primary financial statements comprise the statement of financial position, statement of profit or loss and OCI, statement of changes in equity and statement of cash flows)</p>	<p>Presentation = the selection, location and organization of information that is displayed and disclosed in GPFRs. Presentation covers both display of information and disclosure of information.</p> <p>Displayed information communicates the key messages in a GPFR</p> <p>Disclosure = more detailed information on displayed information</p>



- 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>
- Existing *Conceptual Framework* including (Chapters 1 & 3)
<http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/conceptualframework.pdf>