

Agenda Item 4A: Conceptual Framework: Elements and Recognition

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IPSASB Meeting

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Objectives of Agenda Item 4A

- (a) To **confirm** approach to deferred inflows and deferred outflows
- (b) To **consider** an Issues Paper on first draft of Chapter 5 and **provide** final directions on those issues; and
- (c) To **review** a draft of the final chapter and **provide** directions for further development.

Materials Presented

- Agenda Item 4A.1 Issues Paper on *Development of Option D: Other Economic Phenomena that Do Not Meet the Definition of an Element*
- Agenda Item 4A.2 Issues Paper on Draft of Chapter 5, *Elements and Recognition in Financial Statements*
- Agenda Item 4A.3A Marked-up Draft of Chapter 5
- Agenda Item 4A.3B Clean Draft of Chapter 5
- Agenda Item 4A.4 Draft Minutes of December 2013 Meeting
- Agenda item 4A.5 Minutes of September 2013 meeting

Objective and Nature of Issues Paper at 4A.1 (Paragraph 1)

- Develop Option D selected at Ottawa meeting in order to get confirmation of approach to deferred inflows and deferred outflows
- Background including CF–CP2 & CF–ED2
- Decisions at December 2013 Meeting
- Key Issues Discussed by TBG

Background: Financial Performance (Paragraphs 4-6)

- CF–CP2 highlighted two contrasting approaches:
 - Net result of all changes in entity's resources and obligations during period (A& L-led approach)
 - Result of revenue inflows and expense outflows associated with operations of current period (R& E-led approach)
- Impact on elements especially if R & E-lead approach adopted
 1. Define deferred inflows (DIs) and deferred outflows (DOs) as elements
 2. Broaden asset and liability definitions
 3. Sub-classification of net assets/net liabilities
- Responses to Specific Matters for Comment (SMCs) inconclusive

Background: Approach in CF–ED2 (Paragraphs 9-15) (1)

- Important to be able to distinguish flows relating to current reporting period from flows relating to specified future periods
- Definitions of DIs and DOs proposed:
 - *A deferred inflow is an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period that results from a non-exchange transaction and increases net assets; and*
 - *A deferred outflow is an outflow of service potential or economic benefits provided to another entity or party for use in a specified future reporting period that results from a non-exchange transaction and decreases net assets.*

Background: Approach in CF–ED2 (Paragraphs 9-15) (2)

- Key features of proposed definitions of DIs and DOs in CF–CP2 :
 - Restricted to non-exchange transactions
 - Flows must be related to a specified future period
- Aims
 - Avoid use as smoothing devices
 - Ensure that DIs and DOs not presented on statement of financial position indefinitely
- Two Alternative Views challenged approach

Response to CF–ED2 (Paragraphs 13-15)

- Most respondents disagreed with defining DIs and DOs
 - Implications for IFRS convergence/alignment
 - Proposed approach not reflecting economic reality
 - Lack of objective basis for deferring revenue and expenses
- but**
- Views that information on flows has information value
 - Restriction to non-exchange transactions and requirement for specified period conceptually weak

Background: Approach at September meeting (Paragraph 16)

- September Meeting
 - Non-specification measures of financial performance
 - Non-attribution of elements to financial statements
- Approach allows presentation of measures of performance based on:
 - (i) Movements in resources and claims on those resources in reporting period
 - (ii) Flows relating to reporting period

Discussion and Decision at December meeting: (Paragraphs 17-19) (1)

- A. Defining DIs and DOs as elements in a more principles-based manner and not specifying the financial statements in which the elements are to be recognized.
- B. Deriving the definitions of revenues and expenses from the asset and liability definitions
 - i. Surplus or deficit
 - ii. Recycle
- C. Broadening the asset and liability definitions;
- D. Accepting that certain economic phenomena that do not meet the definition of any element may need to be recognized in financial statements in order to meet the objectives of financial reporting; and
- E. Reporting inflows and outflows that provide service potential or economic benefits, but do not affect assets and liabilities as defined in the Framework and reporting inflows and outflows that do not affect revenue and expenses

Discussion and Decision at December meeting: (Paragraphs 17-19) (2)

- Option D adopted
but
- Need for further development
- TBG Teleconference: early February

Key Issues in Option D (Paragraph 26)

- Terminology
- (i) Definitions of an asset, a liability, (ii) descriptions of other resources and other obligations
- Net financial position and capital maintenance
- Approach to financial performance
- Definitions of revenue and expense
- Recognition criteria for economic phenomena not meeting the definition of an asset
- State of development of conceptual thinking

Terminology (Paragraphs 27-28)

- “Other economic phenomena” in Option D at Ottawa
- View that might be confused with “other comprehensive income”
- “Other items” bland and uninformative
- Staff view that terms “other resources” and “other obligations” clearer and articulate better with definitions of revenue and expense

Matter for consideration: Is this terminology appropriate?

Definitions and net financial position (Paragraphs 29 - 33) (1)

- Definitions of asset & liability agreed at December 2013 meeting
 - An asset is a resource that an entity presently controls as a result of a past event
 - A liability is a present obligation of an entity for an outflow of resources that results from a past event
- No change to these definitions proposed
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Definitions and net financial position (Paragraphs 29 - 33) (2)

- Net financial position = net assets and other resources and other obligations
- Will only differ from net assets if other resources and other obligations recognized
- Interpret net financial position by reference to nature of additional resources and obligations
- Staff view that elements do need to be attributed to particular statements

Matter for consideration: Do you agree with description and discussion of net financial position?

Capital maintenance (paragraphs 34-37) (1)

- Limited consideration during project
- Based on axiom that only revenue in excess of amounts needed to maintain capital is surplus
- IASB current Framework identifies:
 - Financial capital maintenance (FCM)
 - Physical capital maintenance (PCM)

Capital maintenance (paragraphs 34-37) (2)

- TBG view: neither FCM or PCM directly applicable to public sector
- Possible development of capital maintenance concept applicable to public sector
- Would delay finalization of Framework
- TBG view: Framework does not discuss capital maintenance, but signal longer-term intention to carry out further work

Matter for Consideration; Do you agree with TBG views?

Approach to financial performance (Paragraphs 38-41)

- Two main models
 1. Changes in net assets in reporting period
 - Provides indication of extent to which resources and claims against resources have changed in period
 2. Flows relating to period
 - Association of flows with reporting period
- Paragraphs 4.7-4.9 of Section 4 relate surplus to entity's operational and funding model
 - Classification of items may be identified and required in order to provide information to meet information objectives

Matter for consideration: Do paragraphs 4.7-4.9 work? If not what changes are needed?

Definitions of Revenue and Expense: Paragraphs 42-44 (1)

- TBG explored two approaches:
 1. Define revenue & expense by movements in net financial position
 2. Define revenue and expenses by reference to movement in net assets but additional items (other economic phenomena) neither precluded nor required
- TBG selected Approach 1

Definitions of Revenue and Expense: Paragraphs 42-44 (2)

- Revenue is:
 - (i) Increases in assets and other resources and reductions in liabilities during the current reporting period that increase the net financial position, other than ownership contributions; and
 - (ii) Reductions in amounts recognized as other obligations in previous reporting periods.
- Expense is:
 - (i) Increases in liabilities and other obligations and reductions in assets during the current reporting period that decrease the net financial position, other than ownership distributions; and
 - (ii) Reductions in amounts recognized as other resources in previous reporting periods.

Staff Note: Increases and reductions could be grouped better

Matter for Consideration: Do these definitions in substance work?

Recognition and other resources and other obligations (paras. 45-46)

- How recognition criteria relate to other resources and other obligations
- TBG & Staff View that existence uncertainty not feasible
- Measurement uncertainty can and should be assessed
 - Appropriate measurement basis
 - Meets QCs

State of development of conceptual thinking (paragraphs 47-48)

- TBG View: Framework should acknowledge that concepts still developing
 - Paragraph BC43 concepts continue to evolve
- Framework as living document
- Elements identified may develop further

Matter for Consideration: Should Framework include (a) acknowledgement concepts will continue to develop & (b) statement that Framework 'living' document?



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