



Agenda Item 2: Conceptual Framework: Preview of Sessions

John Stanford, Project Coordinator
IPSASB Meeting

Brussels, Belgium
September 15-18, 2014

Objectives of Sessions

- (a) **Note** current timetable; and (b) **Receive** update on developments on the International Accounting Standards Board's (IASB) Conceptual Framework project;
- **Review** and approve revised Preliminary Board View, *Preface to Framework* (2A)
- **Review** and **approve** Chapter 5, *Elements* and provide final directions (2B);
- **Review** and **approve** Chapter 6, *Recognition*, and provide final directions (2B);
- **Review and formally approve** Chapter 7, *Measurement* (2C)
- **Review and formally approve** Chapter 8, *Presentation* (2D)
- **Review** Integrated Conceptual Framework

Agenda Item 2.1: Conceptual Framework : Coordinator's Report

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Project Timetable (Paragraphs and Appendix A)

- Revised timetable circulated July 2014
 - Final approval: September 2014
- Current timetable at Appendix A

Matter for consideration: Note timetable

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (1) (Paragraph 5): : Profit and Loss and Other Comprehensive Income

- Require profit or loss as a total or subtotal;
 - Profit or loss primary source of information about an entity's performance for the period, but not the only source of information;
 - Dual objectives for profit or loss
 - Depicting return that an entity has made on economic resources during the period
 - Providing information that is helpful in assessing prospects for future cash flows
- Rebuttable presumption: all items of income and expense included in profit or loss unless at standards level decision

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (2)

(Paragraph 5): Economic Resources and Economic Benefits

- Guidance on economic resources identifying various forms that economic resources can take; and
- Guidance on economic benefits consistent with Discussion Paper and IFRS 15, *Revenue from Contracts with Customers*.
 - Economic benefits derived from an asset are the potential cash flows that can be obtained directly or indirectly in many ways and provides examples.
 - For a physical object the economic resource is not the object itself, but a right or set of rights to obtain the economic benefits generated by the physical object.

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (3) (Paragraphs 6 and 7): Executory Contracts and Unit of Account

- **Executory Contracts**

- Framework to explain nature of assets and liabilities in executory contracts
- Enforceable executory contract contains a right and an obligation to exchange economic resources (or to pay or receive difference in values between two economic resources if contract will be settled net)
- Combined right and obligation would constitute a single asset or liability.
- IPSASB decision that presentation of executory contracts standards-level issue

- **Unit of Account**

- Standards-level decision.
- Framework to describe possible units of account and factors to consider when determining unit of account.
- Chapter 7 of the IPSASB Framework acknowledges issue of aggregation and disaggregation, but does not provide factors for consideration

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (4) (Paragraph 8): Presentation and Disclosure

- Clear objective for disclosure and presentation requirements in Standards
- Disclosure and presentation requirements promote effective communication of useful financial information
- Communication principles
 - Promote disclosure of useful financial information;
 - Result in disclosures that are clear, balanced and understandable;
 - Avoid duplication in different parts of financial statements
 - Optimize comparability without compromising usefulness of the information disclosed
 - No discussion about electronic format
- No notion of 'primary financial statements'

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (5) (Paragraph 10): Materiality

- No amendment to Chapter 3
 - Information material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity.”
 - Materiality an entity-specific aspect of relevance.
 - Chapter 3 of the IPSASB Framework differs
 - Materiality a constraint on information included in GPFs.

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (6) (Paragraph 11): Measurement (1)

- No measurement objective
 - Description how measurement contributes to overall objective of financial reporting
 - Nature and relevance of the resulting information produced in both statement of financial position and statement(s) of profit or loss and OCI
 - IPSASB Chapter 7 has measurement objective
- Measurement uncertainty factor in selecting measurement basis.
 - High degree of measurement uncertainty does not, by itself, mean that measurement does not provide relevant information
- Need to weigh benefits of introducing a new or different measurement basis against any increased costs or complexity
 - No statement that number of measurement bases should be the smallest necessary to provide relevant information
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IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (7) (Paragraph 11) Measurement (2)

- Retention of discussion of necessary and unnecessary changes in measurement bases
- Further discussion of grouping of measurement bases into a small number of categories
 - Reduce number of measurement bases by combining similar measurement bases and eliminating the description of little-used bases
- Cash-flow based measurement not a separate measurement basis
- Purpose of cash-flow based measurement techniques normally to implement one of the measurement bases in the Conceptual Framework.
 - IPSASB similar view when developing Chapter 7
- Additional guidance (i) the different approaches to dealing with uncertain cash flows (ii) the use of discount rates and (iii) own credit standing
 - Chapter 7 less detailed or does not address

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (8) (Paragraph 12)

Liability Definition: Present Obligation

- Present obligation to transfer an economic resource as a result of past events if both:
 - i. The entity has no practical ability to avoid the transfer
 - ii. The amount of the transfer determined by benefits that the entity has received, or activities that it has conducted in the past.
 - IPSASB Chapter 5: “Little or no realistic alternative to avoid the obligation”
- ‘No practical ability’ to be determined on standard-by standard basis with Framework providing guidance

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (9) (Paragraph 14): Asset Definition: Control

- Control an essential characteristic in asset definition not recognition criterion
 - Asset definition will continue to require an economic resource be controlled by the entity
- Exposure to significant risks and rewards an indicator of control
 - The IPSASB decided not to include risks and rewards as an indicator of control because might not be consistent with control approach
- Supporting guidance: a component of control is ability to prevent other parties from directing use of, and obtaining benefits from, the economic resource
 - Consistent with IPSAB's approach in Chapter 5

IASB Conceptual Framework Developments: Tentative Decisions at June and July Meetings (10) (Paragraph 15)

Asset Definition: Other Elements

- Framework not to include definitions of elements for the statement of cash flows and the statement of changes in equity.
 - Consistent with IPSASB approach
 - Strengthen rationale for non-inclusion?

IASB Conceptual Framework Developments: Future Considerations (Paragraph 16)

- Further aspects of measurement
- Distinction between liabilities and equity
- Implications of long-term investment
- Possible amendments to Chapter 1, *The Objective of General Purpose Financial Reporting*, & Chapter 3, *Qualitative Characteristics of Useful Financial Information*; and
- Consequential amendments.



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