IASB Staff Paper

January 2015

Effect of Board redeliberations on DP *A Review of the Conceptual Framework for Financial Reporting*

About this staff paper

This staff paper updates the proposals in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* to reflect the IASB's tentative decisions up to the end of January 2015.

At its January 2015 meeting the IASB substantially completed its redeliberations on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting.*

All tentative decisions made will be exposed for public comment in an Exposure Draft of a revised *Conceptual Framework*.

Summary of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*

This table shows how the tentative decisions made by the IASB would affect the proposals in the DP *A Review of the Conceptual Framework for Financial Reporting*.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
Timetable, scope and general approach The IASB has decided to build on the existing *Conceptual Framework* – updating, improving and filling in gaps rather than fundamentally reconsidering all aspects of the *Conceptual Framework*. The *Conceptual Framework* deals with financial reports. This Discussion Paper focuses on financial statements, which are one form of financial report. In order to complete a revised *Conceptual Framework* on a timely basis, the IASB does not plan to address in this project other forms of financial reports, such as management commentary, interim financial reports, press releases and supplementary material provided to analysts. The IASB aims to finalise a revised *Conceptual Framework* in 2015.	On 24 April 2014 the IASB tentatively approved the proposed strategy for redeliberation of the *Conceptual Framework*. For most areas the suggestions in the Discussion Paper will be developed in the light of responses to the Discussion Paper. The IASB also tentatively approved the timetable for the redeliberations. The IASB aims to issue an Exposure Draft of a revised *Conceptual Framework* in the first quarter of 2015. On 23 October 2014 the IASB reviewed the due process steps that the IASB has taken in preparation for the publication of the *Conceptual Framework* Exposure Draft. All IASB members confirmed that they are satisfied that the IASB has undertaken sufficient due process steps and therefore instructed the staff to start the balloting process. In addition, the IASB tentatively decided that there should be a comment period for the Exposure Draft of 150 days.
Section 1—Introduction **Purpose and status** The IASB's preliminary views on the purpose and status of the *Conceptual Framework* are as follows: (a) the primary purpose of the revised *Conceptual Framework* is to assist the IASB by identifying concepts that the IASB will use consistently when developing and revising IFRSs. (b) the *Conceptual Framework* may also assist parties other than the IASB to: (i) understand and interpret existing IFRSs; and (ii) develop accounting policies when no Standard or Interpretation specifically applies to a particular transaction or event. (c) the *Conceptual Framework* is not a Standard or Interpretation and does not override any specific Standard or Interpretation. (d) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the *Conceptual Framework*. In such cases, the IASB would describe the departure from that aspect of the *Conceptual Framework*, and the reasons for it, in the Basis for Conclusions on that Standard.	On 24 April 2014 the IASB discussed the purpose and status of the *Conceptual Framework*. The IASB tentatively decided that: (a) the purpose of the *Conceptual Framework* should be to identify the concepts that: (i) assist the IASB to develop and revise the Standards; (ii) assist preparers to develop accounting policies when no Standard applies to a particular transaction, event or condition; (iii) assist all parties to understand and interpret the Standards. (b) the existing status of the *Conceptual Framework* should be retained – that is, the *Conceptual Framework* is not a Standard and does not override the requirements of specific Standards. (c) preparers should not be restricted from applying particular aspects of the *Conceptual Framework*. (d) in a limited number of cases, the IASB may depart from aspects of the *Conceptual Framework*. If the IASB does so, the IASB will explain the departure in the Basis for Conclusions on the Standard in question.

Proposals in the Discussion Paper

Section 2—Elements of financial statements

Definitions of assets and liabilities

The IASB believes that the definitions of assets and liabilities could be clarified. They contain references to expected inflows or outflows of economic benefits. Some have interpreted these references as implying that the asset or the liability is the ultimate inflow or outflow of economic benefits, rather than the underlying resource or obligation. To avoid misunderstandings, the IASB's preliminary view is that it should amend the definitions to confirm more explicitly that:

(a) an asset (or a liability) is the underlying resource (or obligation), rather than the ultimate inflow (or outflow) of economic benefits; and

(b) an asset (or a liability) must be capable of generating inflows (or outflows) of economic benefits. Those inflows (or outflows) need not be certain.

The IASB proposes the following definitions:

(a) an asset is a present economic resource controlled by the entity as a result of past events.

(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

Uncertainty

The IASB's preliminary views are:

(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

(b) the *Conceptual Framework* should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.

(c) the recognition criteria should not retain the existing reference to probability.

Tentative decisions for the Exposure Draft

On 21 May 2014 the IASB tentatively decided that:

(a) Assets should be viewed as rights, or bundles of rights, rather than underlying physical or other objects. The IASB noted that in many cases an entity would account for an entire bundle of rights as a single asset, and describe that asset as the underlying object. An entity would account separately for rights within a bundle only when needed to provide a relevant and faithful representation, at a cost that does not exceed the benefits.

(b) The reference to future economic benefits should be placed in a supporting definition (of an economic resource), rather than in the definitions of an asset and of a liability.

(c) The definition of an economic resource should not include the notion of 'other source of value' that was suggested in the Discussion Paper. The guidance supporting the definition of an economic resource should confirm that the notion of a 'right' is broad enough to capture any know-how that is controlled by keeping it secret.

(d) The term 'present' should be retained in the definition of a liability and, as proposed in the Discussion Paper, should be added to the definition of an asset.

(e) The phrase 'as a result of past events' should be retained in both the definition of an asset and the definition of a liability.

On 21 May 2014, the IASB also discussed the role of uncertainty in the definitions of an asset and of a liability and tentatively decided that:

(a) The definitions of assets and liabilities should not retain the notion that an inflow or outflow needs to be 'expected'.

(b) The definition of an economic resource should, as proposed in the Discussion Paper, specify that an economic resource must be capable of generating economic benefits. The term 'capable' indicates that the economic benefits must arise from some feature that already exists within the economic resource. The term 'capable' is not intended to impose a minimum probability threshold, but rather to indicate that, in at least some outcomes, the economic resource will generate economic benefits.

(c) The notion 'is capable of' should not appear explicitly in the proposed definition of a liability. The supporting guidance should clarify that an obligation must contain an existing feature that is capable of requiring the entity to transfer an economic resource.

Proposals in the Discussion Paper

Tentative decisions for the Exposure Draft

To reflect the decisions above, the draft definitions are now as follows:

(a) an asset is a present economic resource controlled by the entity as a result of past events.

(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

(c) an economic resource is a right that is capable of producing economic benefits.

On 21 January 2015 the IASB tentatively decided to replace the term 'is capable of' with the term 'has the potential to' in the definition of an economic resource. This change is not intended to change the meaning of the definition of an economic resource. The Exposure Draft will define an economic resource as follows:

> An economic resource is a right that has the potential to produce economic benefits.

See section 4 below for the IASB's discussion of how to decide whether to recognise an asset or liability if it is uncertain whether the asset or liability exists, or if it is unlikely that future flows of economic benefits will occur.

Other elements

This section briefly discusses how to define the main building blocks (elements) for the statement(s) of profit or loss and other comprehensive income (income and expense), the statement of cash flows (cash receipts and cash payments) and the statement of changes in equity (contributions to equity, distributions of equity, and transfers between classes of equity).

On 21 May 2014 the IASB tentatively decided that the *Conceptual Framework* should continue to define income and expenses by reference to changes in assets and liabilities.

The IASB noted that the approach to defining income and expenses does not predetermine which assets and liabilities should be recognised, how they should be measured and how income and expenses should be aggregated, analysed and presented. For decisions on these matters, the IASB would continue to consider the nature of the information that would result in the statement of financial position, and also in the statement(s) of profit or loss and other comprehensive income.

On 19 November 2014 the IASB tentatively decided that:

(a) income should be defined as increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants; and

(b) expenses should be defined as decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

The IASB also tentatively decided that the discussion of income and expenses in the elements chapter of the existing *Conceptual Framework* should be amended as follows:

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
	(a) the discussion about presentation of income and expenses should be moved to the presentation and disclosure chapter; (b) the *Conceptual Framework* should no longer contain references to ordinary activities; and (c) the discussion of income should not refer to revenue and gains, and the discussion of expenses should not refer to expenses and losses. The Basis for Conclusions should explain that the removal of these terms is not intended to restrict the definitions of income and of expenses. The elements chapter should not define distinct categories of income and expenses, but could include examples of different types of income and expenses. The IASB also noted that it believes that the tentative decisions it has already taken are sufficient to ensure that the revised *Conceptual Framework* will adequately explain the role of matching in IFRS, and will not conflict with IFRS 15 *Revenue from Contracts with Customers*. On 24 July 2014 the IASB tentatively decided that the *Conceptual Framework* should not define elements for the statement of changes in equity and for the statement of cash flows. Thus, the only elements would continue to be assets, liabilities and equity, and income and expenses.

Proposals in the Discussion Paper

Section 3—Additional guidance to support the asset and liability definitions

Section 3 considers areas in which the IASB could add further guidance to the *Conceptual Framework* to support the revised definitions of an asset and a liability.

Section 3 suggests the following:

(a) to support the definition of an **asset**, guidance should be provided on:

- (i) the meaning of ‘economic resource’; and
- (ii) the meaning of ‘control’.

(b) to support the definition of a **liability**, guidance should be provided on:

- (i) the meaning of ‘transfer an economic resource’;
- (ii) constructive obligations; and
- (iii) the meaning of ‘present’ obligation.

(c) to support **both definitions**, guidance should be provided on:

- (i) reporting the substance of contractual rights and contractual obligations; and
- (ii) executory contracts.

For constructive obligations, the IASB’s preliminary view is that the existing definition of a liability—which encompasses both legal and constructive obligations—should be retained and more guidance should be added to help to distinguish constructive obligations from economic compulsion.

The discussion on the meaning of present obligation notes that a present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity’s future actions. The discussion identifies three different views that the IASB could use as a starting point in developing guidance for the *Conceptual Framework*:

(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.

Tentative decisions for the Exposure Draft

On 19 June 2014 the IASB tentatively decided that the *Conceptual Framework* should include:

(a) guidance on economic resources, based on paragraph 3.5 of the Discussion Paper, but avoiding excessive detail; and

(b) guidance on economic benefits, broadly consistent with the guidance in paragraph 3.6 of the Discussion Paper, and paragraph 35 of IFRS 15 *Revenue from Contracts with Customers*.

The IASB also tentatively decided that the purpose of depreciation and amortisation is to depict consumption of the economic resource that constitutes an asset.

In addition, the IASB tentatively decided that the *Conceptual Framework* should include concepts explaining the nature of the assets and liabilities in executory contracts. It should state that:

(a) an enforceable executory contract contains a right and an obligation to exchange economic resources (or to pay or receive the difference in values between two economic resources if the contract will be settled net). The combined right and obligation would constitute a single asset or liability; and

(b) if an entity enters into a forward contract to purchase a resource at a future date, the entity’s asset is normally its right to buy the underlying resource, not the underlying resource itself. However, in some circumstances the terms of a forward contract to purchase a resource may give the purchaser control of that resource. In such circumstances, the purchaser should identify both an asset (the underlying resource that it already controls) and a liability (its obligation to pay for the resource). In these circumstances, the contract is not executory: the seller has substantively performed its obligations.

The IASB tentatively decided that the *Conceptual Framework* should not address the measurement of executory contract assets and liabilities. Instead, the IASB should apply the general measurement concepts in the *Conceptual Framework* when specifying requirements for particular types of executory contract within the applicable Standard.

The IASB noted that many existing Standards implicitly apply the same measurement bases for executory contract assets or liabilities as they specify for the assets or liabilities that arise when one of the parties subsequently performs its obligations. The result is that many executory contract assets and liabilities are measured at zero (and hence are not recognised) unless the contract is onerous.

Proposals in the Discussion Paper

(b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.

(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Tentative decisions for the Exposure Draft

On 24 July 2014 the IASB discussed the meaning of present obligation and tentatively decided that an entity has a present obligation to transfer an economic resource as a result of past events if both:

(a) the entity has no practical ability to avoid the transfer; and

(b) the amount of the transfer is determined by reference to benefits that the entity has received, or activities that it has conducted, in the past.

The IASB noted that it will need to consider what 'no practical ability' means for transactions within the scope of particular Standards it develops or amends. However, the *Conceptual Framework* should clarify that the fact that an entity intends to make a transfer or that the transfer is probable is not sufficient to conclude that the entity has no practical ability to avoid the transfer. The IASB tentatively decided that the *Conceptual Framework* should include the following general guidance:

(a) Most obligations arise from contracts, legislation or some other operation of the law. In the absence of legal enforceability, an entity has no practical ability to avoid transferring an economic resource if its customary practices, published policies or specific statements create a valid expectation in another party that the entity will transfer the resource to (or on behalf of) that other party. In such situations, the entity has a constructive obligation to transfer the resource.

(b) In some situations, an entity might be required to transfer an economic resource if it takes a particular course of action in the future, such as conducting particular activities or exercising particular options within a contract. In such situations, if the entity has no practical ability to avoid the particular course of action that would require the transfer, and the other criterion is also met (the amount of the transfer is determined by reference to benefits that the entity has received, or activities that it has conducted, in the past), the entity has a present obligation.

(c) Situations in which an entity has no practical ability to avoid a particular course of action include those in which all courses of action that avoid the transfer would cause significant business disruption or have economic consequences significantly more adverse than the transfer itself.

(d) An entity that prepares financial statements on a going concern basis has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or ceasing trading.

In addition, the IASB tentatively decided that no guidance is needed in the *Conceptual Framework* on the role of constrained discretion in the identification of assets.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

Tentative decisions for the Exposure Draft

The IASB also discussed control and tentatively decided:

(a) not to move the requirement for control from the asset definition to the asset recognition criteria;

(b) the definition of an asset should continue to require an economic resource to be 'controlled' by the entity. The definition should not be changed so it instead (or in addition) requires the entity to have exposure or rights to the significant risks and rewards of ownership of the resource;

(c) supporting guidance should identify exposure to the significant risks and rewards of ownership as an indicator of control (but only one factor to consider in the overall assessment);

(d) the terminology relating to control should be consistent with that in IFRS 10 *Consolidated Financial Statements*. Instead of using the term 'risks and rewards of ownership', the *Conceptual Framework* should use wording that explains the meaning of that term, ie 'exposure, or rights, to variations in benefits'; and

(e) the *Conceptual Framework* should state that an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it.

In addition, the IASB tentatively decided that the *Conceptual Framework* should include supporting guidance on the meaning of control, based on the guidance suggested in paragraphs 3.26-3.32 of the Discussion Paper but:

(a) adding clarification that a component of control is the ability to prevent other parties from directing the use of, and obtaining the benefits from, the economic resource; and

(b) deleting some of the examples that were included in the Discussion Paper.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

Section 4—Recognition and derecognition

Section 4 discusses:

(a) recognition: when should an entity's statement of financial position report an economic resource as an asset or an obligation as a liability?

(b) derecognition: when should an entity remove an asset or a liability from its statement of financial position?

The IASB's preliminary view on recognition is that an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant or is not sufficiently relevant to justify the cost; or

(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

The existing *Conceptual Framework* does not address derecognition. The IASB's preliminary view is that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. However, for cases in which an entity retains a component of an asset or a liability, the IASB should determine, when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

(a) enhanced disclosure;

(b) presenting any rights or obligations retained on a line item that is different from the line item used for the original rights or obligations, to highlight the greater concentration of risk; or

(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

On 21 May 2014 the IASB tentatively decided that the *Conceptual Framework* should not establish criteria that govern the recognition of an asset or liability in all circumstances. The *Conceptual Framework* should instead describe factors to consider in deciding whether to recognise an asset or liability. Those factors would include whether the resulting information would be relevant and provide a faithful representation, and the costs of providing information relative to the benefits. Information might not be relevant if, for example, it is uncertain whether the asset or liability exists, if it is unlikely that future flows of economic benefits will occur or if there is very significant measurement uncertainty associated with the item. Agenda Paper 10B contains an initial draft describing those factors. The IASB directed the staff to develop that description in the light of the IASB's discussion.

However, on 21 January 2015 the IASB tentatively decided to describe relevance, faithful representation and the cost benefit constraint as criteria for recognition rather than as factors to consider when deciding whether to recognise an asset or liability. This change from factors to criteria is not intended to change the outcome of any decisions made about recognition.

The IASB noted that its aim in revising the definitions of an asset and of a liability and the recognition criteria was to provide more clarity, not to broaden or narrow the range of recognised assets and recognised liabilities.

On 24 July 2014 the IASB tentatively decided that the *Conceptual Framework* should describe the approaches available, and discuss what factors to consider, in deciding at the Standards-level:

(a) how best to portray the changes that result from a transaction in which an entity retains only a component of an asset or a liability, by either:

  (i) full derecognition—ie derecognise the original asset (or liability) entirely and recognise any retained right (or obligation) as a new asset (or liability);

  (ii) partial derecognition—ie continue to recognise the component of the original asset (or liability) that is retained and derecognise the component that is not retained; or

  (iii) continued recognition—ie continue to recognise the original asset (or liability) and treat the proceeds received or paid for the transfer as a loan received (or granted); and

(b) how to account for modifications of contracts.

Proposals in the Discussion Paper

Section 5—Definition of equity and distinction between liability and equity elements

Section 5 discusses the definition of equity, the measurement and presentation of different classes of equity and how to distinguish liabilities from equity instruments..

The IASB's preliminary views are that:

(a) the *Conceptual Framework* should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

(b) the *Conceptual Framework* should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:

  (i) obligations to issue equity instruments are not liabilities; and

  (ii) obligations that will arise only when the reporting entity is liquidated are not liabilities.

(c) an entity should:

  (i) update the measure of each class of equity claim at the end of each reporting period. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure or an allocation of total equity.

  (ii) recognise updates to those measurements in the statement of changes in equity, as a transfer of wealth between classes of equity claim.

(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would be a decision that the IASB would need to make when it develops or revises particular Standards.

Tentative decisions for the Exposure Draft

On 24 April 2014 the IASB tentatively decided that the *Conceptual Framework*:

(a) should keep the existing binary distinction of liabilities and equity and build on the feedback received on the Discussion Paper to develop definitions of liabilities and equity; and

(b) should not provide detailed guidance on how to distinguish liabilities from equity instruments.

On 24 September 2014 the IASB discussed the role of the definitions of a liability and of equity in distinguishing liabilities from equity claims and tentatively decided not to amend those definitions at this time.

The IASB also tentatively decided that the *Conceptual Framework* should neither require nor preclude any accounting requirements for classes of claims within equity.

Proposals in the Discussion Paper

Section 6—Measurement

The IASB's preliminary views on measurement are that:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:

  (i) the resources of the entity, claims against the entity and changes in resources and claims; and

  (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements.

(c) when selecting which measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI.

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:

  (i) for a particular asset should depend on how that asset contributes to future cash flows; and

  (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained.

(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Tentative decisions for the Exposure Draft

On 24 April 2014 the IASB tentatively decided to build on the proposals in the Discussion Paper, modified in the light of feedback received, rather than undertaking further research work on measurement.

On 23 July 2014 the IASB discussed the objective of measurement and tentatively decided that the Exposure Draft should:

(a) *not* define a separate measurement objective; and

(b) describe as follows how measurement contributes to the overall objective of financial reporting:

  "Measurement is the process of quantifying in monetary terms information about the resources of an entity, claims against the entity and changes in those resources and claims. Such information helps users to assess the entity's prospects for future cash flows and assess management's stewardship of the entity's resources."

The IASB also discussed the implications of the qualitative characteristics of useful financial information for measurement and tentatively decided that the Exposure Draft should:

(a) state that when the IASB selects a measurement basis, it should consider the nature and relevance of the resulting information produced in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income (OCI).

(b) state that:

  (i) the level of uncertainty associated with the measurement of an item is one of the factors that should be considered when selecting a measurement basis; and

  (ii) if a measurement is subject to a high degree of measurement uncertainty, that fact does not, by itself, mean that the measurement does not provide relevant information.

(c) not make explicit use of the term 'reliability' when describing the level of measurement uncertainty associated with the measurement of an item.

(d) retain the discussion of faithful representation included in the Discussion Paper.

(e) discuss in the measurement section that a faithful representation by itself does not necessarily result in useful information. The information provided by the representation must also be relevant.

(f) explain the need to weigh the benefits of introducing a new or different

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

measurement basis against any increased costs or complexity. This would replace the statement in the Discussion Paper that the number of measurement bases should be the smallest necessary to provide relevant information.

(g) retain the discussion of necessary and unnecessary changes in measurement bases included in the Discussion Paper.

(h) retain the discussion of the other enhancing qualitative characteristics included in the Discussion Paper.

(i) state explicitly in the measurement section that the cost-benefit constraint is one of the factors the IASB should consider when selecting a measurement.

On 24 July 2014 the IASB discussed cash-flow-based measurements and tentatively decided that the purpose of cash flow-based measurement techniques is normally to implement one of the measurement bases that will be described in the *Conceptual Framework*. However, if the IASB decides in a particular Standard to use a cash flow-based measurement technique to implement a measurement basis that is not one of those described in the *Conceptual Framework*, the Basis for Conclusions on that Standard should explain why.

The IASB also tentatively decided that the Exposure Draft should include additional guidance on:

(a) the different approaches to dealing with uncertain cash flows;

(b) the use of discount rates. This guidance would state, among other things, that if an entity measures an item using a cash flow-based measurement technique, and the effect of the time value of money is significant for the cash flows associated with that item, then the entity should discount those cash flows to reflect the time value of money; and

(c) how to decide when the measurement of a liability should include the effect of a reporting entity's own credit standing.

However, on 23 October 2014 the IASB tentatively decided not to include this additional guidance in the Exposure Draft noting that the level of detail proposed is excessive for the description of a measurement technique in the *Conceptual Framework*.

On 24 September 2014 the IASB tentatively reconfirmed its decision not to develop a single or default measurement basis.

The IASB also tentatively decided that the Exposure Draft should state that:

(a) consideration of the objective of financial reporting, of the qualitative characteristics of useful information and of the cost benefit constraint is likely to result in the IASB selecting different measurement bases for different assets and liabilities;

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	(b) the factors to be considered when selecting a measurement basis for an asset or liability should include: (i) how the asset or liability will contribute to future cash flows. This will depend in part on the nature of the business activities being conducted. Nevertheless, the *Conceptual Framework* need not (and should not) refer explicitly to any particular business activity, such as long-term investment; and (ii) the characteristics of the asset or liability (for example, the nature or extent of the variability in the item's cash flows, the sensitivity of the value of the item to changes in market factors or other risks inherent in the item); (c) the relative importance of each of the factors to be considered when selecting a measurement basis will depend upon facts and circumstances; and (d) it may be appropriate to use one measurement basis for the statement of financial position and a different measurement basis for the statement of profit or loss when such an approach better reflects the nature of the business activities conducted. The IASB also discussed the initial measurement and tentatively decided to amend the Discussion Paper by: (a) replacing references to the three measurement bases described in the Discussion Paper with references to historical cost and current value; (b) removing some Standards-level detail, to be consistent with the agreed strategy for the measurement section; (c) removing the statement that, for exchanges of equal value, initial measurement issues are rarely significant; and (d) clarifying that cost and fair value are only the same if transaction costs are excluded from cost or are negligible. In addition, the IASB noted that the measurement basis used on initial recognition should be consistent with the measurement basis subsequently. The IASB tentatively decided to clarify that this should not prevent: (a) current values being used in some circumstances as a deemed cost on initial measurement; and (b) a change in measurement basis if such a change increases the relevance of the information provided. On 23 October 2014 the IASB tentatively decided to include in the Exposure Draft a description and discussion of measurement bases that is based on the revised working draft in Agenda Paper 10B.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
	On 19 November the IASB discussed transactions costs and tentatively decided that the Exposure Draft should state that: (a) if a measurement depicts the current value (ie fair value, fulfilment value or value in use) of an asset or liability then that measurement should not reflect the transaction costs of acquiring the asset or incurring the liability. (b) if a measurement depicts the value in use of an asset, the transaction costs that would be incurred on ultimate disposal of that asset should be deducted in producing the measurement. (c) if a measurement depicts the fulfilment value of a liability, the costs that would be incurred in fulfilling that liability should be added in producing the measurement. That measurement would not include transaction costs that would be incurred on transferring the liability to another party or on negotiating a settlement of the liability. (d) the fair value of an asset (liability) is not reduced (increased) by the costs of selling (transferring) the asset (liability). However, this does not preclude the IASB from deciding to measure an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer), if doing so would provide users of financial statements with information that is more relevant than a fair value measurement. (e) if a measurement depicts the cost of an asset or liability (rather than its transaction price), that measurement: (i) should reflect (among other things) the transaction costs of acquiring the asset or incurring the liability; (ii) should not be decreased (increased) to reflect the transaction costs of realising the asset (or settling or transferring the liability).

Proposals in the Discussion Paper

Section 7—Presentation and disclosure

The IASB's preliminary views on presentation and disclosure are that:

(a) the objective of primary financial statements is to provide summarised information about recognised assets, liabilities, equity, income, expenses, changes in equity, and cash flows that has been classified and aggregated in a manner that is useful to users of financial statements in making decisions about providing resources to the entity.

(b) the objective of the notes to the financial statements is to supplement the primary financial statements by providing additional useful information about:

  (i) the assets, liabilities, equity, income, expenses, changes in equity, and cash flows of the entity; and

  (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(c) to meet the objective of disclosure, the IASB would normally consider requiring disclosure about the following:

  (i) the reporting entity as a whole;

  (ii) amounts recognised in the entity's primary financial statements, including changes in those amounts (for example, disaggregation of line items, roll-forwards, reconciliation);

  (iii) the nature and extent of the entity's unrecognised assets and liabilities;

  (iv) the nature and extent of risks arising from the entity's assets and liabilities (whether recognised or unrecognised); and

  (v) the methods, assumptions and judgements, and changes in those methods, assumptions and judgements, that affect amounts presented or otherwise disclosed.

(d) the concept of materiality is clearly described in the existing *Conceptual Framework*. Consequently, the IASB does not propose to amend, or add to, the guidance in the *Conceptual Framework* on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the *Conceptual Framework* project.

(e) forward-looking information would be included in the notes to the financial statements if it provides relevant information about existing assets and liabilities, or about assets and liabilities that existed during the reporting period.

Tentative decisions for the Exposure Draft

On 19 June 2014 the IASB tentatively decided:

(a) to reconfirm the proposal in the Discussion Paper that each Standard should have a clear objective for disclosure and presentation requirements;

(b) to reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information;

(c) to include in the *Conceptual Framework* those communication principles proposed in the Discussion Paper that are primarily directed at the IASB and discuss how they relate to the qualitative characteristics of useful financial information. Specifically, the IASB tentatively decided that disclosure requirements should seek to:

  (i) promote the disclosure of useful information that is entity-specific;

  (ii) result in disclosures that are clear, balanced and understandable;

  (iii) avoid duplication of the same information in different parts of the financial statements; and

  (iv) optimise comparability without compromising the usefulness of the information disclosed; and

(d) not to include in the *Conceptual Framework* a discussion about financial statements in an electronic format.

The IASB also tentatively decided it would not amend the concept of materiality in paragraph QC11 of the existing *Conceptual Framework*, except to clarify that the term 'users' in that paragraph refers to the *primary* users mentioned in Chapter 1 of the *Conceptual Framework*.

On 24 July 2014 the IASB discussed the scope and content of presentation and disclosure guidance and tentatively decided that the Exposure Draft should:

(a) *not* introduce the notion of 'primary financial statements' that had been proposed in the Discussion Paper;

(b) state that the objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. As a result, financial statements provide information about the financial position, financial performance and cash flows of an entity;

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

(c) discuss disclosures that the IASB would normally consider requiring in setting Standards (but should not provide examples of different types of disclosures);

(d) retain the discussion of disclosure of risks and forward-looking information proposed in the Discussion Paper. In particular:

- (i) the IASB would normally consider requiring disclosures about the nature and extent of risks arising from the entity's assets and liabilities; and
- (ii) the IASB should require forward-looking information to be included in the notes to the financial statements only if it provides relevant information about the assets and liabilities that existed at the end of, or during, the reporting period;

(e) retain the guidance on classification and aggregation, offsetting and comparative information proposed in the Discussion Paper, in particular that:

- (i) in order to present information that is understandable, an entity should classify, aggregate and disaggregate information about recognised elements in a way that reflects similarities in the properties of the information;
- (ii) offsetting items of dissimilar nature does not generally provide the most useful information; and
- (iii) comparative information is an integral part of an entity's financial statements for the current period because it provides relevant trend information.

On 19 November 2014 the IASB tentatively decided that the *Conceptual Framework* should *not* comment on whether the objective of disclosure should include the provision of information that enables a user of financial statements to recalculate the amounts recognised in the financial statements. Rather, the IASB should consider that topic in its Disclosure Initiative project.

Proposals in the Discussion Paper

Section 8—Presentation in the statement of comprehensive income

Section 8 discusses:

(a) the purpose of the statement(s) of profit or loss and OCI; and

(b) whether the *Conceptual Framework* should require a profit or loss total or subtotal and whether it should require or permit recycling.

The IASB's preliminary views are that:

(a) the *Conceptual Framework* should require a profit or loss total or subtotal that also results, or could result, in some items of income or expense being recycled; and

(b) the use of OCI should be limited to items of income or expense resulting from changes in current measures of assets and liabilities (remeasurements). However, not all such remeasurements would be eligible for recognition in OCI. Section 8 discusses two approaches that could be used to define which remeasurements might be included in OCI.

Tentative decisions for the Exposure Draft

On 19 June 2014 the IASB tentatively decided that the *Conceptual Framework* should:

(a) require profit or loss as a total or subtotal.

(b) describe profit or loss as the primary source of information about an entity's performance for the period but emphasise that it is not the only source of such information. For example, items included in OCI also provide information about an entity's performance.

(c) describe the dual objectives for profit or loss as depicting the return that an entity has made on its economic resources during the period, and providing information that is helpful in assessing prospects for future cash flows. On 21 January 2015 the IASB tentatively decided to leave this notion in the Exposure Draft but not to describe it as the objective of profit or loss.

(d) include a rebuttable presumption that all items of income and expense should be included in profit or loss unless the IASB concludes in a particular Standard that including an item of income and expense—or a component of such an item—in OCI would enhance the relevance of profit or loss as the primary source of information about an entity's performance for the period.

(e) state that one example when the rebuttable presumption discussed in (d) above could be rebutted is when the IASB concludes that one measurement basis is appropriate for an asset or a liability in the statement of financial position and another measurement basis is appropriate for profit or loss. In such cases, the resulting difference would be reported in OCI.

(f) include a rebuttable presumption that all items of income and expense included in OCI should be recycled to profit or loss.

On 24 July 2014 the IASB discussed why profit or loss is the primary source of information about an entity's performance for the period. The IASB tentatively decided that the Exposure Draft should:

(a) propose that the presumption for including items of income and expense in profit or loss cannot be rebutted for items of income and expense that arise when cost-based measures are used for assets and liabilities.

(b) propose that the presumption for including items of income and expense in profit or loss can only be rebutted for changes in current measures of assets and liabilities, and only if including those changes—or components of those changes—in OCI enhances the relevance of profit or loss as the primary source of information about an entity's performance for the period; and

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
	(c) emphasise that including items of income and expense resulting from changes in current measures of assets and liabilities—or components of those changes—in OCI is an application of the classification, aggregation and disaggregation principle for presentation and disclosure, which is designed to provide effective communication of financial information and to make that information more understandable.

Proposals in the Discussion Paper

Section 9—Other issues

Chapters 1 & 3

Section 9 discusses the IASB's approach to Chapter 1 *The Objective of General Purpose Financial Reporting* and Chapter 3 *The Qualitative Characteristics of Useful Financial Information* of the existing *Conceptual Framework*. The IASB does not intend to fundamentally reconsider the content of these chapters. However, the IASB will make changes to those chapters if work on the rest of the *Conceptual Framework* highlights areas within those chapters that need clarifying or amending. Section 9 also discusses the concerns that some have raised with how these chapters deal with the issues of stewardship, reliability and prudence.

Tentative decisions for the Exposure Draft

Stewardship

On 21 May 2014 the IASB tentatively decided to amend Chapter 1 of the *Conceptual Framework* to increase the prominence of stewardship within the overall objective of financial reporting. It would do this by identifying the information needed to assess the stewardship of management as not overlapping fully with the information needed to help users assess the prospects of future net cash inflows to the entity.

Reliability

On 21 May 2014 the IASB tentatively decided:

(a) not to replace the qualitative characteristic of faithful representation with reliability;

(b) not to include reference to reliability as either an additional qualitative characteristic or an aspect of either relevance or faithful representation; and

(c) to consider in drafting whether it is possible to give greater prominence to the idea expressed in paragraph QC16 of the existing *Conceptual Framework* that if the level of uncertainty associated with an estimate is sufficiently large, that estimate might not provide relevant information.

Prudence

On 21 May 2014 the IASB tentatively decided:

(a) to reintroduce a reference to prudence in the *Conceptual Framework;*

(b) to describe prudence as the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence is consistent with neutrality and should not allow the overstatement or understatement of assets, liabilities, income or expenses; and

(c) to discuss in the Basis for Conclusions the significance of prudence for preparers in preparing financial statements and for the IASB when setting Standards.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

Other aspects of Chapters 1 and 3

On 21 May 2014 the IASB discussed Chapters 1 and 3 of the *Conceptual Framework* and tentatively decided:

(a) to amend Chapter 3 *Qualitative Characteristics of Useful Financial Information* to explain that, when the legal form of an item is different from its underlying economic substance, reporting that item in accordance with its legal form would not result in a faithful representation;

(b) to make no changes to the description of the primary user group identified in Chapter 1 *The Objective of General Purpose Financial Reporting*;

(c) not to elevate understandability from an enhancing qualitative characteristic to a fundamental qualitative characteristic; and

(d) not to add a discussion of complexity to the *Conceptual Framework*.

Reporting entity

The IASB has not included a discussion on the reporting entity in this Discussion Paper because the IASB has already issued a Discussion Paper and an Exposure Draft on this topic. The IASB intends that the Exposure Draft of the *Conceptual Framework* will include material on the reporting entity, based on the 2010 Exposure Draft and updated in the light of comments received on that Exposure Draft.

On 21 May 2014 the IASB tentatively decided that:

(a) A reporting entity is an entity that chooses, or is required, to present general purpose financial statements.

(b) A reporting entity need not be a legal entity, and could comprise an unincorporated entity, a portion of an entity, or two or more entities.

(c) The *Conceptual Framework* should not discuss joint control and significant influence.

(d) Generally, consolidated financial statements are more likely than unconsolidated financial statements to provide information that is useful to more users.

(e) When an entity is required to present consolidated financial statements, that entity may also choose, or be required, to present unconsolidated financial statements. Those unconsolidated financial statements should disclose how users may obtain consolidated financial statements.

(f) The *Conceptual Framework* should not specify which combinations of entities could constitute a reporting entity that could legitimately prepare combined financial statements.

In addition, the IASB tentatively confirmed that financial statements should be prepared from the perspective of the reporting entity as a whole. This decision was reconfirmed on 21 January 2015.

Proposals in the Discussion Paper

Business model

Section 9 discusses the use of the business model concept in financial reporting—this Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if it considers how an entity conducts its business activities when it develops new or revised Standards.

Tentative decisions for the Exposure Draft

On 24 July 2014 the IASB tentatively decided that the Exposure Draft should not provide a single over-arching description of how the nature of an entity's business activities would affect standard-setting. Instead, the IASB should describe, for each area affected, how consideration of an entity's business activities would affect standard setting. The IASB also indicated that the nature of an entity's business activities is likely to affect measurement, the unit of account, the distinction between profit or loss and OCI, and presentation and disclosure. It is less likely to affect other areas covered by the *Conceptual Framework.*

On 24 September 2014 the IASB discussed the implications of long-term investment for the *Conceptual Framework* and tentatively decided that:

(a) the IASB's tentative decisions on measurement and on profit or loss and other comprehensive income (OCI) would provide sufficient tools so that the IASB would be able to make appropriate standard-setting decisions should future projects consider:

  (i) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; and

  (ii) whether such entities should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI;

  (The IASB has no active or planned projects on long-term investment);

(b) no other areas of the *Conceptual Framework* need to include a specific reference to reporting entities whose business activities include holding long-term investments;

(c) the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting, to address appropriately the needs of long-term investors in a reporting entity; and

(d) when updated for the IASB's tentative decisions in May 2014, the *Conceptual Framework* would contain sufficient and appropriate discussion of stewardship and prudence to address appropriately the needs of long-term investors in a reporting entity.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
Unit of account The IASB's preliminary view is that the unit of account will normally be decided when it develops or revises particular Standards and that, in selecting a unit of account, it should consider the qualitative characteristics of useful information.	On 19 June 2014 the IASB tentatively decided that: (a) determining the unit of account is a Standards-level decision; (b) the *Conceptual Framework* should describe possible units of account; and (c) the *Conceptual Framework* should include a list of factors to consider when determining the unit of account but should not rank the priorities of the factors.
Going concern In the Discussion Paper the IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when making disclosures about the entity).	On 21 May 2014 the IASB tentatively decided that: (a) The going concern assumption should be treated as an underlying assumption. The revised *Conceptual Framework* should include the current description of the going concern assumption, except that the phrase 'curtail materially the scale of its operations' should be replaced by 'cease trading'. That wording is used in IAS 1 *Presentation of Financial Statements* and IAS 10 *Events After the Reporting Period*; (b) The IASB should not provide additional guidance in the *Conceptual Framework* on the going concern assumption; (c) This project should not address: (i) the preparation of financial statements by entities that are not going concerns; and (ii) disclosures about going concern.
Capital maintenance The IASB may reconsider capital maintenance concepts if it undertakes a project on accounting for high inflation. The IASB plans to keep the existing descriptions and discussion of capital maintenance concepts in the revised *Conceptual Framework* largely unchanged until it undertakes such a project.	On 24 April 2014 the IASB tentatively decided to leave the existing descriptions and the discussion of capital maintenance concepts in the *Conceptual Framework* unchanged unless work on the measurement section of the Exposure Draft highlights a need to discuss the issue further.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
Transition and effective date The summary and invitation to comment of the Discussion Paper stated that once the IASB finalises the revised *Conceptual Framework*, it will start using it immediately. The Discussion Paper did not provide any other guidance on transition or effective date.	On 24 July 2014 the IASB tentatively decided that: (a) the IASB and the IFRS Interpretations Committee should apply the revised *Conceptual Framework* immediately after its publication; (b) a transition period of no less than approximately 18 months should be allowed for entities that use the *Conceptual Framework* to develop and apply accounting policies for a transaction, other event or condition for which no IFRS specifically applies. Early application should be permitted; and (c) no additional guidance on transition should be provided in the revised *Conceptual Framework*. Consequently, entities would be required to apply the provisions of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to any changes in accounting policy arising from an application of the revised *Conceptual Framework.*
Inconsistencies with existing Standards The summary and invitation to comment of the Discussion Paper stated that a revised *Conceptual Framework* will not necessarily lead to changes to existing IFRSs. Any proposal to change an existing Standard or Interpretation would need to go through the IASB's normal due process (including a formal decision to add the project to the IASB's agenda).	On 23 October 2014 the IASB discussed a summary of potential inconsistencies between the existing Standards and the *Conceptual Framework* Exposure Draft and tentatively decided that the Basis for Conclusions accompanying the Exposure Draft should: (a) explain the implications of its proposed changes to the *Conceptual Framework* including that the *Conceptual Framework* does not override existing Standards or Interpretations and that the IASB will not necessarily change existing Standards or Interpretations as a result of changes that it makes to the *Conceptual Framework*; and (b) describe potential inconsistencies between the existing Standards and the *Conceptual Framework* Exposure Draft. The IASB also tentatively decided that the Exposure Draft should include proposals to replace the existing references to the *Framework for the Preparation and Presentation of Financial Statements* (or to the *Framework*) with references to the *Conceptual Framework for Financial Reporting* (or to the *Conceptual Framework*) in those Standards and Interpretations that will not have been superseded before the revised *Conceptual Framework* becomes effective.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
	In addition, the IASB tentatively decided that, until the revised *Conceptual Framework* is finalised, it will not consider developing proposals: (a) to amend IAS 1 or IAS 8 to align these Standards with the proposed revised *Conceptual Framework*; or (b) to clarify the meaning of the term ‘reliability’ in existing Standards.