

STAFF PAPER

April 2014

REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Strategy for redeliberations		
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Purpose of paper

1. The purpose of this paper is to obtain your feedback on our proposed approach to redeliberations on the IASB Discussion Paper DP 2013/1 *A Review of the Conceptual Framework for Financial Reporting*.

Structure of paper

2. This paper is structured as follows:
 - (a) timetable (paragraphs 3-9);
 - (b) scope (paragraphs 10-13);
 - (c) proposed approach (paragraph 14-17);
 - (d) question for the IASB.

Timetable

3. When restarting work on the *Conceptual Framework* project, we decided that it should be completed expeditiously. This decision reflects the importance of the project to the IASB in developing and revising Standards.
4. Some respondents to the Discussion Paper supported the proposal to complete work on a revised *Conceptual Framework* by the end of 2015. However, many of

those who commented expressed the view that we should reconsider the proposed timetable to allow for more in-depth discussions on some areas (in particular, measurement, presentation and disclosure, other comprehensive income (OCI) and the split between liabilities and equity).

5. The timetable for the project was discussed at the Accounting Standards Advisory Forum (ASAF) meeting in March.
 - (a) Many ASAF members stated that the IASB should continue to place a high priority on completing the revisions to the *Conceptual Framework* in line with its current timetable while acknowledging that, as a consequence, some areas of the *Conceptual Framework* might be more developed than others.
 - (b) Other ASAF members suggested that the IASB should complete some sections of the *Conceptual Framework* to the current timetable but subsequently take more time to develop the sections on measurement and OCI.
 - (c) Some ASAF members suggested that further research work or a new Standard might be needed in some areas (for example, measurement, OCI and the distinction between liabilities and equity). However, this should not hold up the completion of the *Conceptual Framework*. The IASB could, if necessary, revisit these sections of the *Conceptual Framework* once the research work or revised Standards have been completed.

6. The staff continue to believe that it is important to complete the *Conceptual Framework* project on a timely basis. This may mean that some areas of the *Conceptual Framework* are more developed than other areas. However, we believe that it is better to complete those improvements we can make on a timely basis rather than delay the whole document.

7. The areas of measurement, OCI and the split between liabilities and equity could slow the project down. Agenda papers 10B – 10D discuss possible approaches to these areas.

8. If the staff's recommendations for the scope of the project and the approach to measurement, OCI and the split between liabilities and equity are accepted, we

still believe it should be possible to publish an Exposure Draft of a revised *Conceptual Framework* by the end of 2014.

9. The timing of a finalised *Conceptual Framework* will very much depend on both the comment period for the Exposure draft and the responses to the Exposure Draft. However, we believe that a target date of Q2 2016 is achievable.

Scope

10. When it restarted the *Conceptual Framework* project in 2012, the IASB decided to build on the existing *Conceptual Framework*—updating, improving and filling in the gaps rather than fundamentally reconsidering all aspects of the *Conceptual Framework*. Most respondents who commented on this stated that they support this approach.
11. The staff continue to believe that this approach can deliver significant improvements to the *Conceptual Framework* in a reasonable timeframe. Consequently, we do not recommend any change to this overall approach.
12. The Discussion Paper also stated that, in order to complete the revised *Conceptual Framework* on a timely basis, the IASB would address only financial statements. It would not address other forms of financial reports such as management commentary, interim financial reports, press releases and supplementary material provided for analysis. Most of those who commented on this issue agreed that the revised *Conceptual Framework* should address only financial statements, at least for now. However, a few respondents disagreed, arguing that it would limit the relevance of the document. In particular, a few respondents stated that the *Conceptual Framework* should also deal with interim financial reports and management commentary.
13. The staff believe that widening the scope of the project to include other forms of financial report would significantly delay the publication of improvements to the *Conceptual Framework*. Consequently, we recommend that the project should continue to focus on financial statements only.

Proposed approach

14. Appendix A to this paper sets out our proposed approach to the following areas of the *Conceptual Framework*:
 - (a) purpose and status;
 - (b) elements;
 - (c) additional guidance to support the asset and liability definitions;
 - (d) recognition and derecognition;
 - (e) presentation and disclosure;
 - (f) reporting entity;
 - (g) Chapters 1 and 3; and
 - (h) other.

15. For most of these areas we are proposing to develop papers that analyse the suggestions in the Discussion Paper in the light of responses to the Discussion Paper. However, the following areas are worth highlighting:
 - (a) **Reporting entity** – This was not discussed in the Discussion Paper.
 - (i) A paper analysing the responses to the 2010 Exposure Draft on the Reporting Entity and our suggested approach to this section of the *Conceptual Framework* will be discussed at the May 2014 meeting.
 - (ii) Many respondents to the 2010 ED stated that the *Conceptual Framework* should discuss the perspective to be adopted in preparing financial statements. We plan to discuss this when we discuss the split between liabilities and equity.
 - (b) **Chapters 1 and 3** – We plan to present papers at the May 2014 meeting that discuss whether, and if so how, to make changes to these Chapters of the *Conceptual Framework*. We will focus on:
 - (i) Stewardship
 - (ii) Prudence
 - (iii) Reliability

- (iv) Primary user
- (v) Complexity
- (vi) Substance over form.

At the July 2014 meeting, we will discuss whether any further changes to these chapters (including consequential amendments) are needed.

- (c) **Capital maintenance** – Most respondents agreed with the proposal in the Discussion Paper to leave the existing descriptions and the discussion of capital maintenance concepts in the *Conceptual Framework* largely unchanged until such time as work on accounting for high inflation indicates a need for a change. Consequently, we do not propose to discuss capital maintenance with you unless work on the measurement section of the Exposure Draft highlights a need to discuss the issue further.

- 16. Appendix B provides a meeting by meeting overview of the topics we plan to discuss.
- 17. This paper does not include a detailed discussion of our proposed approach to measurement, the distinction between liabilities and equity, and presentation in the statement(s) of profit or loss and OCI. Respondents to the Discussion Paper raised significant concerns about these areas. These concerns along with our recommendations for how to approach these areas are discussed in the following papers:
 - (a) AP 10B – *Initial strategy: Liabilities and equity*
 - (b) AP 10C – *Initial strategy: Measurement*
 - (c) AP 10D – *Initial strategy: Profit or loss and other comprehensive income.*

Question for the IASB

Proposed approach

Do you have any comments on our proposed approach to the *Conceptual Framework* Exposure Draft as set out in this paper?

Appendix A – Proposed approach

Topic	What we have heard ¹	Plans
<p>Purpose and status</p>	<p>Many respondents:</p> <ul style="list-style-type: none"> • disagreed that the IASB should be identified as the primary user of the <i>Conceptual Framework</i>, arguing that this understates the importance of the <i>Conceptual Framework</i> to parties other than the IASB • agreed that the <i>Conceptual Framework</i> is not an IFRS and the IASB should be permitted to depart from the <i>Conceptual Framework</i> <p>Some respondents disagreed with the suggestion that some aspects of the <i>Conceptual Framework</i> are only for the IASB (OCI, recognition, derecognition)</p>	<p>April meeting</p> <p>See AP 10E – <i>Purpose and status of the Conceptual Framework</i></p>

¹ Agenda papers 10A – 10M presented at the March 2014 IASB meeting provide a more detailed summary of the feedback received.

Topic	What we have heard ¹	Plans
Elements		
Asset/liability definitions	<p>Many respondents:</p> <ul style="list-style-type: none"> • agreed that the definitions of an asset and a liability should focus more on the resource or obligation, rather than the flows that might result • agreed that the reference to ‘expected’ should be replaced by ‘capable’ • preferred to retain an explicit probability threshold in either the definition or the recognition criteria <p>There were mixed views about whether a physical object should be viewed as a bundle of rights (the ‘rights’ approach)</p>	<p>May meeting</p> <p>Papers that discuss:</p> <ul style="list-style-type: none"> • whether to confirm the proposal to replace ‘expected’ notion with ‘capable’ notion (see also discussion of probability in recognition criteria) • whether to confirm the ‘rights’ approach. • aspects of the suggested definitions, especially: <ul style="list-style-type: none"> ○ do they need both ‘present’ and ‘as a result of past events’? ○ should the ‘capable’ notion be added to the definition of a liability? ○ is there a clearer term than capable? ○ does the definition of economic resource need ‘or other source of value’? ○ should the definition of economic resources include items that might be relevant for the public sector and not-for-profit?

Topic	What we have heard ¹	Plans
Income/expense	<p>A few respondents suggested that the IASB should not define income and expense solely in terms of changes in assets and liabilities</p> <p>Many respondents agreed that there is no need to make major changes to the definitions of income and expenses</p> <p>Some respondents suggested that the IASB should define as elements</p> <ul style="list-style-type: none"> • different types of income or expense • profit or loss and comprehensive income 	<p>May meeting</p> <p>Paper to confirm that income and expense should still be defined as changes in assets and liabilities</p> <p>July meeting</p> <p>Consider as part of the OCI discussion whether there is a need to define elements for different types of income or expense, profit or loss, or comprehensive income</p> <p>Minor changes to the definitions will be considered at the drafting stage</p>
Elements for statement of cash flows and statement of changes in equity	<p>Few respondents commented on this. However, some questioned the need to define the elements of the statement of cash flows</p>	<p>June meeting</p> <p>Paper discussing</p> <ul style="list-style-type: none"> • whether to define elements for the statement of cash flows and the statement of changes in equity • the relationship between the primary financial statements, if any, and the elements of financial statements (see also discussion of presentation)

Topic	What we have heard ¹	Plans
Additional guidance to support asset and liability definitions		
Meaning of obligation	<p>Many respondents:</p> <ul style="list-style-type: none"> • agreed that the definition of a liability should include both legal and constructive obligations • agreed that the definition of a liability should include at least some obligations that are conditional on the entity’s future actions • think the IASB should consider the interaction between all ‘in substance’ obligations (whether constructive or conditional) and develop a consistent approach to the role of economic compulsion 	<p>May meeting</p> <p>Papers that discuss the effect of ‘constrained discretion’ on the identification of a liability, including:</p> <ul style="list-style-type: none"> • identifying an over-arching principle and consistent terminology that could apply to all situations • applying that principle and terminology to help reach a conclusion on: <ul style="list-style-type: none"> ○ whether to confirm the proposal to include both legally enforceable and constructive obligations ○ the role of economic compulsion ○ obligations that are conditional on the entity’s future actions (‘View 2’, ‘View 3’ or something different), taking into consideration possible implications for assets and for the distinction between liabilities and equity claims

Topic	What we have heard ¹	Plans
Control (and related guidance)	<p>Some respondents welcomed the proposal to include a definition of control in the <i>Conceptual Framework</i>. However, a few questioned whether it was necessary</p> <p>Some respondents challenged aspects of the definition or suggested modifications</p>	<p>July meeting</p> <p>Papers that discuss:</p> <ul style="list-style-type: none"> • whether to confirm retention of ‘control’ • whether to confirm that ‘control’ should be in the definition of an asset, not in the recognition criteria. • the definition of control suggested in Discussion Paper
Reporting the substance of contractual rights and obligations	<p>Many respondents supported both the proposal to include more guidance in the <i>Conceptual Framework</i>, and the nature of the guidance proposed</p>	<p>Confirm at drafting stage the specific guidance for contractual rights and obligations suggested in the Discussion Paper.</p> <p>May meeting</p> <p>Paper that discusses the conclusions on the role of economic compulsion in liability/equity classification—within papers on meaning of ‘obligation’</p>

Topic	What we have heard ¹	Plans
Executory contracts	<p>Many respondents believe that the guidance on executory contracts needs further development</p>	<p>June meeting</p> <p>Paper that seeks to:</p> <ul style="list-style-type: none"> • develop a more precise description of the nature of the rights and obligations arising in executory contracts • explain why the rights and obligations give rise to a single net asset or liability (and in what circumstances, if any, they give rise to a separate gross asset and gross liability)
Recognition and derecognition		
Recognition	<p>Many respondents:</p> <ul style="list-style-type: none"> • agreed that the recognition criteria should refer to relevance and faithful representation • suggested that it would be clearer and more straight-forward to retain probability and reliability of measurement as explicit recognition criteria 	<p>May meeting</p> <p>Paper that discusses whether to replace the existing recognition criteria (probable economic benefits and reliable measurement) with criteria based on the qualitative characteristics</p>

Topic	What we have heard ¹	Plans
Derecognition	Respondents were split on the approach to be used for derecognition (ie control, risks and rewards or a combination)	<p>July meeting</p> <p>Paper that considers the approach to derecognition</p>
Equity		
Overall approach to equity to be determined	<p>Many respondents:</p> <ul style="list-style-type: none"> • supported the strict obligation approach • supported providing additional information on the effects of different classes of equity claims • expressed reservations about the proposal to update the measurement of some classes of equity claim and to highlight the results using an expanded statement of changes in equity 	<p>AP 10B – <i>Initial strategy: Liabilities and equity</i> discusses possible approaches to the equity section of the <i>Conceptual Framework</i></p>

Topic	What we have heard ¹	Plans
Measurement		
Overall approach to measurement to be determined	<p>Many respondents:</p> <ul style="list-style-type: none"> • supported the mixed measurement approach • agreed with the guidance on selecting a measurement basis • suggested that the business model concept could help the IASB decide on a measurement basis <p>Some respondents expressed the view that this section:</p> <ul style="list-style-type: none"> • Requires more thought and analysis • Simply codifies existing practice • Includes too much standards-level detail 	<p>AP 10C – <i>Initial strategy: Measurement</i> discusses possible approaches to the measurement section of the <i>Conceptual Framework</i></p>

Topic	What we have heard ¹	Plans
Presentation and disclosure		
Presentation in primary financial statements	Although there was broad support for the approach suggested in the Discussion Paper, many respondents expressed concerns about aspects of this section including the overall level of detail	<p>June meeting</p> <p>Papers discussing:</p> <ul style="list-style-type: none"> • the objective of the primary financial statements • what the primary financial statements are, the relationships between them and the relationship between those statements and the elements of financial statements
<p>Disclosure in the notes</p> <ul style="list-style-type: none"> • Objective • Scope 	Although there was broad support for the approach suggested in the Discussion Paper, many respondents expressed concerns about aspects of this section including the overall level of detail	<p>June meeting</p> <p>Papers discussing:</p> <ul style="list-style-type: none"> • the objective of the notes to the financial statements • the scope and boundary of the notes to the financial statements

Topic	What we have heard ¹	Plans
Materiality	Many respondents agreed that there is no need to revise the concept of materiality in the <i>Conceptual Framework</i> but that further work should be undertaken outside the <i>Conceptual Framework</i>	<p>June meeting</p> <p>Paper discussing whether to confirm that the concept of materiality does not need to be updated in the <i>Conceptual Framework</i></p>
Form of disclosure and presentation: <ul style="list-style-type: none"> • Disclosure objectives • Communication principles 	Many respondents agreed with the suggestion to include communication principles in the <i>Conceptual Framework</i> and with the communication principles suggested. However, some respondents suggested changes to the communication principles or additional communication principles	<p>June meeting</p> <p>Papers discussing:</p> <ul style="list-style-type: none"> • whether to confirm that Standards should have a disclosure objective • the communication principles and their placement and whether other communication principles are appropriate
Other	-	<p>June meeting</p> <p>Papers discussing:</p> <ul style="list-style-type: none"> • the terminology used in the Discussion Paper, including ‘presentation’, ‘disclosure’, ‘aggregation’, ‘primary financial statements’ • the interaction with the Disclosure Initiative

Topic	What we have heard ¹	Plans
Presentation in the statement(s) of profit or loss and other comprehensive income (OCI)		
Overall approach to OCI section to be determined	<p>Many respondents:</p> <ul style="list-style-type: none"> • agreed profit or loss should be presented as a total or subtotal • stated that profit or loss should be defined or described. However, there were few suggestions and no consensus about how this should be done • supported a broad approach to OCI however not necessarily for the reasons discussed in the DP • supported recycling for some or all items included in OCI. However, there was no consensus about which items to recycle and when <p>Some respondents expressed the view that this section:</p> <ul style="list-style-type: none"> • requires more thought and analysis • simply codifies existing practice • is a Standards-level topic • should have better links to the measurement section 	<p>AP 10D – <i>Initial strategy: Profit or loss and other comprehensive income</i> discusses possible approaches to OCI in the <i>Conceptual Framework</i></p>

Topic	What we have heard ¹	Plans
Reporting entity		
Perspective of financial statements	Some respondents stated that the perspective from which financial statements are presented (entity perspective or propriety perspective): <ul style="list-style-type: none"> • should be discussed in the <i>Conceptual Framework</i> • is important when considering the distinction between liabilities and equity 	May meeting Paper discussing the perspective of financial statements
Other reporting entity issues <ul style="list-style-type: none"> • Description of reporting entity • Consolidated financial statements • Other types of financial statements (parent only, combined, dual listed) 	Some respondents suggested that there is no need for a separate reporting entity chapter: a broad description of a reporting entity may be sufficient. Control issues should be addressed at the standards level	May meeting Paper discussing: <ul style="list-style-type: none"> • The description and boundary of a reporting entity • Consolidated financial statements • Other types of financial statements (parent only, combined, dual listed)

Topic	What we have heard ¹	Plans
Chapters 1 and 3		
Stewardship	Stewardship should be given greater prominence in the <i>Conceptual Framework</i>	<p>May meeting</p> <p>Paper discussing:</p> <ul style="list-style-type: none"> • the advantages and disadvantages of giving stewardship more prominence • different ways in which stewardship could be given more prominence
Prudence	Prudence should be reintroduced in the <i>Conceptual Framework</i>	<p>May meeting</p> <p>Paper discussing:</p> <ul style="list-style-type: none"> • the meaning of the term ‘prudence’ • the advantages and disadvantages of reintroducing prudence • different ways in which prudence could be re-introduced

Topic	What we have heard ¹	Plans
Reliability	Reliability should be reintroduced in the <i>Conceptual Framework</i>	<p>May meeting</p> <p>Paper discussing:</p> <ul style="list-style-type: none"> • the advantages and disadvantages of reintroducing reliability • different ways in which reliability could be re-introduced
Primary users	<p>Some believe the objective of financial reporting should be focused on needs of common shareholder</p> <p>Some others believe the primary user group identified in Chapter 1 is too narrow</p>	<p>May meeting</p> <p>Paper discussing whether to confirm the primary users of financial reporting identified in Chapter 1</p>
<p>Other issues</p> <ul style="list-style-type: none"> • Complexity • Substance over form 	The <i>Conceptual Framework</i> should include explicit reference to, and further discussion of, these notions	<p>May meeting</p> <p>Paper discussing whether any changes are needed to current descriptions of these issues in the <i>Conceptual Framework</i></p>
Review of Chapters 1 and 3	-	<p>July meeting</p> <p>Staff will review text of these Chapters to identify whether any further amendments (including consequential amendments) are needed</p>

Topic	What we have heard ¹	Plans
Other		
Business model	<p>Many respondents:</p> <ul style="list-style-type: none"> • agreed business model has a role to play in financial statements. However, there were mixed views on whether it is fundamental to financial reporting or should play a more limited role • suggested the IASB should define or provide additional guidance on the business model 	<p>June meeting</p> <p>Paper discussing:</p> <ul style="list-style-type: none"> • role of business model in financial statements (ie is it fundamental or only one of the factors to be considered?) • whether to define the business model and, if so, how
Unit of account	<p>Many respondents agreed that the unit of account should normally be decided when the IASB develops or revises particular standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information</p> <p>Some suggested that the <i>Conceptual Framework</i> should include more guidance for the IASB on determining the unit of account</p>	<p>June meeting</p> <p>Paper exploring whether we could include more guidance on unit of account and what that additional guidance might say</p>

Topic	What we have heard ¹	Plans
Going concern	<p>Some respondents:</p> <ul style="list-style-type: none"> • expressed concern that the discussion of going concern in the Discussion Paper appeared to downplay the importance of the going concern concept • suggested additional disclosures about going concern are needed • asked for additional guidance on going concern (including clarification of the time horizon) and on the link between going concern and notions such as ‘practically unconditional’ and ‘no realistic alternative’ • requested guidance on financial statements that are prepared when an entity is not a going concern 	<p>May meeting</p> <p>Paper discussing how to incorporate the going concern assumption into the <i>Conceptual Framework</i></p> <p>We do not propose to address in this project:</p> <ul style="list-style-type: none"> • disclosures about going concern • financial statements of an entity that is not a going concern
Capital maintenance	<p>Most respondents agreed with the proposal to leave the existing descriptions and the discussion of capital maintenance concepts in the <i>Conceptual Framework</i> largely unchanged until such time as work on accounting for high inflation indicates a need for a change</p>	<p>No discussion planned</p> <p>We do not propose to discuss capital maintenance with the Board unless work on the measurement section of the ED highlights a need to discuss the issue further (ie we will move ahead with the proposal to include the existing descriptions of capital maintenance in the ED without significant change)</p>

Topic	What we have heard ¹	Plans
Transition guidance	Some respondents stated that the <i>Conceptual Framework</i> should provide transition guidance	<p>July meeting</p> <p>Paper discussing whether transition guidance is needed and, if so, what form that guidance should take</p>
Consequential amendments	-	<p>July meeting</p> <p>Review existing Standards (in particular IAS 8 and IAS 1) to see if any consequential amendments are needed, for example, to align the language in the Standards to the language in the revised <i>Conceptual Framework</i>. Note: this review is not intended to result in any changes to the requirements of the existing Standards</p>

Appendix B – Timetable

Date	Action
May 2014	We plan to discuss the following: <ul style="list-style-type: none"> • Element definitions • Recognition • Additional guidance on element definitions • The split between liability and equity • Reporting entity • Chapters 1 & 3 • Going concern
June 2014	We plan to discuss the following: <ul style="list-style-type: none"> • Other elements • Executory contracts • Presentation and disclosure • Business model • Unit of account
July 2014	We plan to discuss the following: <ul style="list-style-type: none"> • Measurement • OCI • Derecognition • Review of other areas of Chapters 1 & 3
Sept 2014	Sweep issues
Dec 2014	Issue Exposure Draft