STAFF PAPER

June 2014

REG IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Summary of tentative decisions		
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Purpose of paper

1. The purpose of this paper is to provide a summary of the tentative decisions made in the course of redeliberations on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the 'Discussion Paper'). The paper is provided for information purposes only and we do not plan to discuss it at the meeting.

2. The table below updates the proposals in the Discussion Paper to reflect the IASB's tentative decisions up to the end of May 2014. An updated version of this paper will be presented at each IASB meeting at which we discuss the *Conceptual Framework*.

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

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 areas of liabilities and equity, measurement and profit or loss and other comprehensive income (OCI) were discussed separately (see below).

The IASB also tentatively approved the timetable for the redeliberations. The IASB aims to issue an Exposure Draft of a revised *Conceptual Framework* by the end of 2014.

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,

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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

Proposals in the Discussion Paper

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.

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).

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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.

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.

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.

On 21 May 2014 the IASB tentatively decided that the *Conceptual Framework* should continue to define income and expense 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 expense 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.

Elements for the statement of cash flows and statement of changes in equity will be discussed at a future meeting.

As part of a future discussion on profit or loss and other comprehensive income, the IASB will also consider whether there is a need to define elements for different types of income and expense, profit or loss, or comprehensive income.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

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*:

Additional guidance to support the asset and liability definitions will be discussed at this and future meetings.

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(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. (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.	

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.

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.

Derecognition will be discussed at a future meeting.

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.

The IASB will continue its discussion on this topic at this meeting.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

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.

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.

The IASB will continue its discussion on measurement at a future meeting.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
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.	Materiality and communication aspects will be discussed at this meeting. Other aspects of presentation and disclosure will be discussed at a future meeting.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft

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.

On 24 April 2014 the IASB discussed how to develop the distinction between profit or loss and other comprehensive income (OCI). The IASB directed the staff to develop an approach which would emphasise the role of profit or loss as the primary source of information about an entity's performance and would provide high level guidance to the IASB on how it could use OCI.

The IASB will continue its discussion on profit or loss and OCI at this meeting.

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.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
	In addition, the IASB tentatively confirmed that financial statements should be prepared from the perspective of the reporting entity as a whole.
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.	The use of the business model concept in financial reporting will be discussed at a future meeting.
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.	Unit of account will be discussed at this meeting.
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; and (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.

Proposals in the Discussion Paper	Tentative decisions for the Exposure Draft
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.