STAFF PAPER

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REG IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Update on the FASB's and IPSASB's *Conceptual Framework* projects		
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Purpose of paper

1. The purpose of this paper is to provide an update to the IASB on the *Conceptual Framework* projects undertaken by:
   (a) the US Financial Accounting Standards Board (FASB) (paragraphs 4–10), and
   (b) the International Public Sector Accounting Standards Board (IPSASB) (paragraphs 11–33).
2. The staff have not identified any developments that would suggest that the IASB should reconsider any of its tentative decisions in its *Conceptual Framework* project.
3. This paper is for information purposes only and does not contain questions for the IASB.

FASB's *Conceptual Framework* project

4. In 2004, the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to revise their *Conceptual Frameworks*. In September 2010, the IASB and the FASB finalised and issued two chapters of the revised *Conceptual Framework*:
   (a) Chapter 1—The Objective of General Purpose Financial Reporting; and

(b) Chapter 3—Qualitative Characteristics of Useful Financial Information.[1]

These chapters became effective as soon as they were issued and form part of the IASB's and FASB's existing *Conceptual Frameworks*.

5. The IASB and the FASB also worked jointly on the reporting entity concept, leading to the publication of both a Discussion Paper and an Exposure Draft on this topic. In addition, they jointly worked on the definitions of the elements of the financial statements and on measurement.

6. In November 2010, the IASB and the FASB suspended work on the joint *Conceptual Framework* project in order to concentrate on other projects. The IASB restarted its *Conceptual Framework* project in 2012 in the light of responses received on its 2011 Agenda Consultation. The FASB has also restated the work on its *Conceptual Framework*. The revived projects are no longer being conducted jointly.[2]

7. In July 2009, the FASB added to its agenda a project on a Disclosure Framework. The objective of the project was to establish an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant. As part of that project, the FASB sought to develop a framework that would promote consistent decisions about disclosure requirements by the FASB. That guidance would form a part of FASB's Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*.

8. In March 2014, the FASB published an Exposure Draft *Conceptual Framework for Financial Reporting–Chapter 8: Notes to Financial Statements*. In September 2014, the FASB discussed the comment letter summary on the Exposure Draft. The FASB staff is currently using the decision process for developing disclosures proposed in that Exposure Draft to review the existing disclosure requirements in four Topics in the Accounting Standards Codification: income taxes, inventories, fair value, and defined benefit plans. The purpose of this review is to test the efficacy of the proposed process while at the same time identifying improvements to the existing

[1] Chapter 2 was intended to cover the reporting entity concept but was not finalised.

[2] A senior member of the FASB's *Conceptual Framework* team has helped in the development of the IASB's *Conceptual Framework* Exposure Draft as a part-time member of the project team.

requirements. The FASB does not plan to redeliberate the proposals in the Exposure Draft until those reviews are completed.

9. In June 2014, the FASB decided to restart its *Conceptual Framework* project beginning with presentation and measurement followed by the liability-equity distinction. Presentation and measurement workstreams are currently in the initial deliberations stage.

10. Further detail on the FASB's *Conceptual Framework* project is provided in Appendix A.

IPSASB's *Conceptual Framework* project

11. In 2006, the IPSASB initiated a project on *Conceptual Framework* for general purpose financial reporting by public sector entities.

12. In January 2013, the IPSASB completed Phase 1 of the project with the issuance of the following chapters:

    (a) Chapter 1: Role and Authority of the Conceptual Framework

    (b) Chapter 2: Objectives and Users of General Purpose Financial Reporting

    (c) Chapter 3: Qualitative Characteristics

    (d) Chapter 4: Reporting Entity

13. In October 2014, the IPSASB completed the remaining Phases 2-4 of the project and issued its completed *Conceptual Framework* that included the following new chapters:

    (a) Chapter 5: Elements in Financial Statements

    (b) Chapter 6: Recognition in Financial Statements

    (c) Chapter 7: Measurement of Assets and Liabilities in Financial Statements

    (d) Chapter 8: Presentation in General Purpose Financial Reports

14. Appendix B provides a high-level comparative overview of the guidance in Chapters 5–8 of the IPSASB's *Conceptual Framework* and the relevant IASB's tentative

decisions to date. The key differences between the IPSASB's guidance in Chapters 5-8 and the IASB's proposed guidance are discussed below as follows:

(a) elements (paragraphs 16–22),

(b) recognition (paragraphs 23–24),

(c) measurement (paragraphs 25–30), and

(d) presentation and disclosure (paragraphs 31–33).

15. The staff note that some of the differences are attributable to the different characteristics of public sector entities and private sector entities—ie focus on delivering services to citizens and others versus generating cash flows. The staff also note that in developing the proposals for the *Conceptual Framework* Exposure Draft the IASB has already considered alternatives similar to those included in the IPSASB's *Conceptual Framework*. Accordingly, the staff do not think that the IASB should reconsider its tentative decisions following the issuance of the completed IPSASB's *Conceptual Framework*.

Elements

Equity

16. The IASB tentatively decided that equity should continue to be defined as an element of financial statements and proposes to continue to define equity as the **residual interest** in the assets of the entity after deducting all its liabilities.

17. The IPSASB's *Conceptual Framework* does not define equity as an element. The IPSASB considered whether net financial position[3], ie the aggregate of an entity assets less liabilities and other resources less other obligations[4] recognised in the statement of financial position:

(a) is a residual amount, a residual interest or an ownership interest, and

(b) whether it should be defined.

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[3] The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, paragraph 5.28.

[4] Other resources and other obligations are discussed in paragraphs 21-22 of this paper.

18. The IPSASB noted the differences between the interest of resource providers and service recipients in a public sector entity and an ownership interest in a private entity, and concluded that:

    (a) the terms 'residual interest' and 'ownership interest' can be misunderstood and misinterpreted, and

    (b) net financial position is a **residual amount** that should not be defined.[5]

Contributions and distributions by owners

19. The IPSASB also considered whether ownership interest, which in some cases can be a part of net financial position, should be defined as an element. The IPSASB concluded that such interest can be identified through the sub-classification of net financial position and should not be defined. However, the IPSASB concluded that it was important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expense, other resource and other obligations[6]. Accordingly, the IPSASB's *Conceptual Framework* defines ownership contributions and ownership distributions as elements.

20. The IASB also considered whether to define contributions to equity and distributions of equity as elements[7]. The IASB concluded that disadvantages of defining elements for the statement of changes in equity outweigh the advantages and tentatively decided that the *Conceptual Framework* should continue not to define contributions to equity and distributions of equity as elements.

Other economic phenomena

21. The IPSASB's *Conceptual Framework* also states that in some circumstances recognition of economic phenomena—other resources and other obligations—that are not captured by defined elements may be necessary to achieve the objectives of financial reporting. That approach evolved from previous IPSASB proposals to

[5] The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, paragraphs BC5.66-5.67.

[6] The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, paragraph BC5.68.

[7] Agenda Paper 10G of July 2014, paragraphs 17-19.

define additional elements to capture deferred inflows and outflows of service potential and economic benefits.

22. The IPSASB's intention in proposing to create these additional elements was primarily to address multi-year unconditional general grants—transactions that are important in the public sector, but are of less significance in private sector financial reporting. Accordingly, the IASB did not consider defining such elements and does not propose to include guidance on other resources and other obligations in its *Conceptual Framework*.

Recognition

23. The IPSASB's *Conceptual Framework* sets out the following recognition criteria:

    (a) an item satisfies a definition of an element, and

    (b) can be measured in a way that achieves the qualitative characteristics, and takes account of constraints on information in general purpose financial reports (GPFRs)[8].

24. The IASB considered that approach in developing the recognition proposals for the *Conceptual Framework* Exposure Draft. The IASB concluded that **just** relying on qualitative characteristics, without supplying supporting guidance, would not provide sufficient support for recognition decisions at the Standards level. The IASB also noted the disadvantages of setting out specific recognition conditions. Accordingly, the IASB tentatively decided to instead describe factors to consider in making recognition decisions.[9] Those factors include consideration of whether the resulting information would meet the qualitative characteristics of useful financial information and of the costs of providing the information relative to the benefits which is consistent with the criteria set out in the IPSASB's *Conceptual Framework.*

[8] As discussed in paragraphs 21-22 of this paper, an International Public Sector Accounting Standard (IPSAS) may also specify that, to achieve objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognised in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints.

[9] The analysis and the initial draft of the factors to be considered are set out in paragraphs 13-19 of Agenda Paper 10B of May 2014.

Measurement

25. The IPSASB's *Conceptual Framework* sets out a measurement objective. The IASB considered whether its *Conceptual Framework* should set out a separate measurement objective and tentatively decided to instead describe how measurement contributes to the overall objective of financial reporting.

26. The IASB tentatively decided to categorise measurement bases as historical or current and to describe the following current measurement bases: fair value, fulfilment value for liabilities and value in use for assets.[10]

27. The IPSASB's *Conceptual Framework* also categorises measurement bases as historical or current. However, it discusses more current measurement bases as follows:

Assets	Liabilities
Market value	Market value
Replacement cost	Assumption price
Net selling price	Cost of release
Value in use	Cost of fulfilment

28. The IASB considered describing more measurement bases, but concluded that it is unnecessary to separately describe in the *Conceptual Framework*:

    (a) cost of release or assumption price because it is unlikely that the IASB would require the use of these measurement bases;

    (b) net realisable value because it is simply a current measurement basis for assets that has been adjusted to reflect costs of sale.

29. The IASB also concluded that a detailed description of current cost is probably unnecessary because it is not currently used in Standards and there are no current plans to use it in the future.

30. The IASB has tentatively decided to describe a number of factors to consider when selecting a measurement basis. The IPSASB's *Conceptual Framework* does not

[10] Agenda Paper 10B of October 2014.

explicitly discuss factors to consider when selecting a measurement basis but instead focuses on:

(a) the information the different measurement bases provide about the cost of services delivered by an entity, the operating capability of an entity and the financial capacity of an entity; and

(b) the extent to which the different measurement bases provide information that meets the qualitative characteristics.

Presentation and disclosure

31. The IPSASB's *Conceptual Framework* discusses display and disclosure of information within GPFRs. In the context of the financial statements, the IPSASB's *Conceptual Framework* describes display as communicating key messages on the face of the financial statements, and disclosure as providing detail in the notes that will help users to understand the displayed information.

32. The IASB considered whether it should use a collective term to refer to a number of components of financial statements (such as 'primary financial statements'),which could in turn lead to the need to use a particular term to describe the process of providing information in those components (such as 'presentation').[11] The IASB noted the challenges associated with developing a collective term for a number of components of financial statements and deciding which components to include under the chosen term and tentatively decided not to propose such a collective term in the *Conceptual Framework* Exposure Draft. Consequently, the IASB did not propose a term to describe the process of providing information in particular components of financial statements.

33. The IPSASB's *Conceptual Framework* provides guidance on selection, location and organisation of information that is reported in GPFRs, including what information is reported in financial statements. The IASB's proposed guidance also addresses what information is included in the financial statements, where information is located and how it is organised. However, the IASB's proposed guidance is less detailed. The

[11] Agenda Paper 10F of July 2014, paragraphs 37-53.

IASB concluded that further guidance on presentation and disclosure would be more appropriate at Standards level.[12]

[12] Agenda Paper 10F of July 2014, paragraphs 67-82.

Appendix A—An overview of the FASB's *Conceptual Framework* project

A1. The table below sets out the current status of the FASB's *Conceptual Framework* project:

Workstream	Current stage	Due process documents / Decisions reached
Conceptual Framework: Measurement	Initial deliberations	In June 1014, the FASB discussed how to proceed with developing concepts related to measurement, including: 1. Agreeing on the meanings of key terms and what the objectives and qualitative characteristics imply for measurement. 2. Identifying appropriate types of measurements. 3. Determining which measurements to use in specific circumstances.
Conceptual Framework: Presentation	Initial deliberations	In June 2014, the FASB decided the following two presentation concepts should be further developed: 1. Information should be grouped into reasonably homogeneous groups. Line items or subtotals that include items that have similar characteristics in more than one respect are likely to provide more information about prospects for future cash flows than if their characteristics are dissimilar. 2. The association between changes in assets, liabilities, and equity instruments and the assets, liabilities, and equity instruments that changed should be made apparent in the financial statements (or in the financial statements and notes).
Disclosure Framework:	Exposure Draft redeliberations	In July 2012, the FASB published an Invitation to Comment on Disclosure Framework.

Workstream	**Current stage**	**Due process documents / Decisions reached**
Board's Decision Process		In March 2014, the FASB published an Exposure Draft *Conceptual Framework for Financial Reporting–Chapter 8: Notes to Financial Statements*. In September 2014, the FASB discussed the comment letter summary on the Exposure Draft. No decisions have been made since the publication of the Exposure Draft. Next steps: The FASB staff are reviewing existing disclosure requirements in four Codification Topics using the proposals in the Exposure Draft. That review will determine whether, and if so, how the proposals should be modified before issuing the final version of Chapter 8 to Concepts Statement No. 8.

Appendix B—Comparative overview of the IASB's tentative decisions to date and the IPSASB's *Conceptual Framework*

	Topic	IASB's tentative decisions	IPSASB's Conceptual Framework
1	Defined elements	- Assets - Liabilities - Income - Expenses - Equity	- Assets - Liabilities - Revenue - Expense - Ownership contributions - Ownership distributions
2	Assets and liabilities	An asset is a present economic resource controlled by the entity as a result of past events. A liability is a present obligation of the entity to transfer an economic resource as a result of past events. An economic resource is a right that is capable of producing economic benefits.	An asset is a resource presently controlled by the entity as a result of a past event. A liability is a present obligation of the entity for an outflow of resources that results from a past event. A resource is an item with service potential or the ability to generate economic benefits.
5	Income (revenue) and expenses	The IASB tentatively decided that the *Conceptual Framework* should continue to define income and expense by reference to changes in assets and liabilities[13].	Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions. Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.
7	Equity	Equity is the residual interest in the assets of the entity after deducting all its liabilities.	Not defined.

[13] Agenda Paper 10B Sweep issues for this month's meeting discusses proposed drafting of the definitions of income and expenses.

	Topic	IASB's tentative decisions	IPSASB's Conceptual Framework
8	Ownership contributions and ownership distributions	Not defined.	Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity. Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.
9	Recognition	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.	The recognition criteria are that: - An item satisfies the definition of an element; and - Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports. However, in some circumstances, an IPSAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognised in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints. Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The assessment is performed at each reporting date.
10	Derecognition	The IASB tentatively decided that the *Conceptual Framework* should describe the approaches available, and discuss what factors to consider, in deciding: - 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: o full derecognition, o partial derecognition, or	Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognised from the financial statements and removing the item if such changes have occurred. In evaluating existence uncertainty the same criteria are used for derecognition as at initial recognition.

	Topic	IASB's tentative decisions	IPSASB's Conceptual Framework
		o continued recognition, and - how to account for modifications of contracts.	
11	Measurement objective	The IASB discussed the objective of measurement and tentatively decided that the *Conceptual Framework* should: (a) *not* define a separate measurement objective; and (b) describe how measurement contributes to the overall objective of financial reporting as follows: "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 objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.
12	Measurements bases	The IASB tentatively decided that the *Conceptual Framework* should discuss the following measurement bases for assets and liabilities: - Historical cost - Current measurement bases o Fair value o Fulfilment value for liabilities and value in use for assets	Measurement bases for assets are: - Historical cost - Current value measurements o Market value o Replacement cost o Net selling price o Value in use Measurement bases for liabilities are: - Historical cost - Current value measurements o Cost of fulfilment o Market value o Cost of release o Assumption price

	Topic	IASB's tentative decisions	IPSASB's Conceptual Framework
13	Selection of a measurement basis	The IASB tentatively decided that the *Conceptual Framework* should 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; - the factors to be considered when selecting a measurement basis for an asset or liability should include: 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 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); - the relative importance of each of the factors to be considered when selecting a measurement basis will depend upon facts and circumstances; and - 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 selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess: - The cost of services provided in the period in historical or current terms; - Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and - Financial capacity—the capacity of the entity to fund its activities. The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

	Topic	IASB's tentative decisions	IPSASB's Conceptual Framework
14	Presentation and disclosure	The IASB tentatively decided that the *Conceptual Framework* should: - state that disclosure and presentation requirements should promote effective communication of useful financial information; - 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; - discuss disclosures that the IASB would normally consider requiring in setting Standards; - provide guidance on classification and aggregation, offsetting based on shared characteristics.	Presentation is the selection, location and organization of information that is reported in the GPFRs. Presentation decisions may: - Result in the development of a new GPFRs, the movement of information between reports, the amalgamation of existing reports; or - Be detailed decisions on information selection, location and organization within a GPFR. Decisions on information selection address what information is reported: - In the financial statements; and - In GPFRs outside the financial statements. Users' information needs underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity. Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information. Decisions on information location are made about which: - Report information is located within; and - Component of a report information is located. Information organization addresses the arrangement, grouping and ordering of information. Those decisions take into account relationships between information (including enhancement, similarity, shared purpose) and whether information is for display or disclosure.