STAFF PAPER

June 2016

IASB Meeting

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

CONTACT(S)	Daniela Marciniak	dmarciniak@ifrs.org	+44 207 246 6966
	Jelena Voilo	jvoilo@ifrs.org	+44 207 246 6914

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 Exposure Draft *Conceptual Framework for Financial Reporting* (the 'Exposure Draft') that was published in May 2015. The paper is provided for information purposes only and we do not plan to discuss it at the meeting.

2. The table below reflects the Board's tentative decisions up to the end of May 2016. An updated version of this paper will be provided at each Board meeting at which we discuss the *Conceptual Framework*.

Proposals in the Exposure Draft	Tentative decisions for the revised ***Conceptual Framework***

Approach to the project

Proposals in the Exposure Draft

The Board aims to make significant improvements to the *Conceptual Framework* without delay and expects to complete the revisions to the *Conceptual Framework* in 2017. To achieve this, the Board is building on the existing *Conceptual Framework*—updating it, improving it and filling in gaps instead of fundamentally reconsidering all aspects of the *Conceptual Framework*.

Tentative decisions for the revised *Conceptual Framework*

On 20 April 2016 the Board tentatively decided that it would redeliberate the topics that have proved controversial or those where new information has become available. On other topics, the Board would confirm the proposals in the Exposure Draft but will not undertake significant additional analysis.

The Board tentatively decided that, in analysing the effects of the *Conceptual Framework*, the staff

(a) would not be asked to perform a comprehensive analysis of:

- (i) the effects of the revised *Conceptual Framework* on future standard-setting; or
- (ii) inconsistencies between the revised *Conceptual Framework* and Standards.

(b) would be asked to:

- (i) perform a more extensive analysis of the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—could have for current projects;
- (ii) analyse additional inconsistencies between the revised *Conceptual Framework* and Standards suggested by respondents; and
- (iii) perform a more detailed analysis of the effects of the revised *Conceptual Framework* on preparers.

Introduction

Proposals in the Exposure Draft

The Exposure Draft states that the *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*') describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the *Conceptual Framework* is to:

(a) assist the Board to develop Standards that are based on consistent concepts;

(b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy; and

(c) assist all parties to understand and interpret the Standards.

Tentative decisions for the revised *Conceptual Framework*

On 20 April 2016 the Board discussed the status and purpose of the *Conceptual Framework*. The Board tentatively decided:

(a) to confirm the proposal in the Exposure Draft that the purpose of the *Conceptual Framework* is to:

- (i) assist the Board to develop IFRS Standards that are based on consistent concepts;
- (ii) assist preparers to develop consistent accounting policies when no IFRS Standard applies to a particular transaction or event, or when an IFRS

Proposals in the Exposure Draft	Tentative decisions for the revised ***Conceptual Framework***
The *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any specific Standards. To meet the overall objective of general purpose financial reporting, the Board may sometimes specify requirements that depart from aspects of the *Conceptual Framework*. If the Board does so, it will explain the departure in the Basis for Conclusions on the Standard in question. The *Conceptual Framework* may be revised from time to time on the basis of the Board's experience of working with it. The *Conceptual Framework* reflects and contributes to the stated mission of the IFRS Foundation, including the Board, to develop International Financial Reporting Standards that bring transparency, accountability and efficiency to financial markets around the world.	Standard allows a choice of accounting policy; and (iii) assist all parties to understand and interpret IFRS Standards; (b) to retain the existing status of the *Conceptual Framework*, and to confirm the proposal in the Exposure Draft to explain any departures from aspects of the *Conceptual Framework* in the Basis for Conclusions accompanying the Standard in question; (c) to confirm the proposal in the Exposure Draft that the *Conceptual Framework* should state that it may be revised from time to time; and (d) to not include in the Basis for Conclusions on the *Conceptual Framework* examples of events and circumstances that could trigger a revision of the *Conceptual Framework*.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Chapter 1—The objective of general purpose financial reporting

The description of the objective of general purpose financial reporting in the Exposure Draft has been carried forward from the current version of the *Conceptual Framework*:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

The Exposure Draft proposes to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources.

To achieve this, the Exposure Draft proposes to reintroduce the term 'stewardship' and to explicitly explain that investors', lenders' and other creditors' expectations about returns (that affect their decisions to buy, sell or hold investments and provide or settle loans) depend not only on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity, but also on their assessment of management's stewardship of the entity's resources.

On 18 May 2016 the Board discussed whether any changes are needed to the discussion of stewardship in Chapter 1 and tentatively decided to:

(a) clarify the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as:

- (i) decisions to buy, sell or hold equity and debt instruments;
- (ii) decisions to provide or settle loans and other forms of credit; and
- (iii) decisions needed to exercise rights while holding investments, such as rights to vote on or otherwise influence management's actions.

(b) retain paragraphs 1.22–1.23 of the Exposure Draft without explaining further which aspects of management's stewardship responsibilities can be assessed using information in financial reports.

(c) continue using the term 'stewardship' in the *Conceptual Framework* and explain in the Basis for Conclusions on the *Conceptual Framework* what the term 'stewardship' means and how it relates to the term 'accountability'.

The Board tentatively decided to indicate in the Basis for Conclusions on the revised *Conceptual Framework* that increasing the prominence of stewardship within the objective of financial reporting does not imply a preference for a historical cost measurement basis.

In addition, on 18 May 2016 the Board tentatively decided to retain the existing description of the primary user group in Chapter 1.

Proposals in the Exposure Draft	**Tentative decisions for the revised *Conceptual Framework***
Chapter 2—Qualitative characteristics of useful financial information	
When the Board restarted work on the *Conceptual Framework* project in 2012, it decided not to fundamentally reconsider the chapter on qualitative characteristics. The Exposure Draft proposes to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information. It does not propose any changes to the description of enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) or the cost constraint. However, in response to the comments received on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, the Exposure Draft proposes a number of changes.	On 18 May 2016 the Board tentatively decided to confirm that relevance and faithful representation should continue to be identified as the two fundamental qualitative characteristics of useful financial information.
Reintroduction of prudence	
The Exposure Draft proposes to reintroduce an explicit reference to the notion of prudence: 2.18. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and income are not understated. Equally, the exercise of prudence does not allow for the understatement of assets and income or the overstatement of liabilities and expenses, because such mis-statements can lead to the overstatements of income or the understatement of expenses in future periods. The Basis for Conclusions distinguishes between two types of prudence: (d) ‘cautious prudence’—a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than those relating to losses and liabilities. It is in this sense that the Board proposes to reintroduce prudence in the *Conceptual Framework*. (e) ‘asymmetric prudence’—a need for systematic asymmetry: losses are recognised at an earlier stage than gains are. The Board thinks that the *Conceptual Framework*	On 18 May 2016 the Board tentatively decided to confirm that the revised *Conceptual Framework* should include a reference to prudence described as the exercise of caution when making judgements under conditions of uncertainty, as proposed in the Exposure Draft. The Board tentatively decided that there is no need to explain in the Basis for Conclusions on the *Conceptual Framework* that the notion of prudence cannot be used by preparers to override the requirements in IFRS Standards because the *Conceptual Framework* already includes a statement that it is not a Standard and does not override any specific Standards. In addition, the Board directed the staff to explore further whether and how the *Conceptual Framework* should acknowledge that asymmetric treatment of gains (or assets) and losses (or liabilities) could be selected if such selection is intended to result in relevant information that faithfully represents what it purports to represent.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

should not identify asymmetric prudence as a necessary characteristic of useful financial information. However, it explained that accounting policies that treat gains differently from losses could be selected in accordance with the proposals in the Exposure Draft if:

(i) they are selected in a manner that is not intended to increase the probability that financial information will be received favourably or unfavourably by users of financial statements (ie neutral accounting policies are selected); and

(ii) their selection is intended to result in relevant information that faithfully represents what it purports to represent.

Explicit reference to substance over form

The Exposure Draft proposes to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form:

> 2.14. Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. <u>A faithful representation provides information about the substance of an economic phenomenon instead of merely providing information about its legal form. Providing information only about a legal form that differs from the economic substance of the underlying economic phenomenon would not result in a faithful representation.</u>

On 18 May 2016 the Board tentatively decided to confirm that it would include in the *Conceptual Framework* an explicit statement that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form.

Discussion of measurement uncertainty

The Exposure Draft proposes that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant.

On 18 May 2016 the Board tentatively decided to:

(a) describe measurement uncertainty as a factor affecting faithful representation; and

(b) clarify in the Basis for Conclusions on the revised *Conceptual Framework* that a trade-off can exist between the fundamental qualitative characteristics of relevance and faithful representation.

The Board tentatively decided not to include a brief explanation of existence, outcome and measurement uncertainty in the Introduction to Chapter 2.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Chapter 3—Financial statements and the reporting entity

The role of financial statements

The Exposure Draft describes the role of financial statements. Among other things, it:

(a) states that financial statements are prepared from the perspective of the entity as a whole, instead of from the perspective of any particular group of investors, lenders or other creditors; and

(b) sets out the going concern assumption, which has been brought forward largely unchanged from the existing *Conceptual Framework*.

Description and boundary of a reporting entity

The Exposure Draft describes a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements. It states that a reporting entity does not have to be a legal entity and can comprise only a portion of an entity or two or more entities.

The Exposure Draft proposes that when one entity (the parent) has control over another entity (the subsidiary), the boundary of the reporting entity can be determined by either direct control only (leading to unconsolidated financial statements) or by direct and indirect control (leading to consolidated financial statements).

The Exposure Draft also states that financial statements are sometimes prepared for two or more entities that do not have a parent-subsidiary relationship and refers to such financial statements as combined financial statements.

The Exposure Draft also states that:

(a) in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements;

(b) consolidated financial statements of the parent entity are not intended to provide information to users of the subsidiary's financial statements; and

(c) if an entity chooses, or is required, to prepare unconsolidated financial statements, it would need to disclose how users may obtain the consolidated financial statements.

Proposals in the Exposure Draft	**Tentative decisions for the revised *Conceptual Framework***
Chapter 4—The elements of financial statements The Exposure Draft proposes changes that would affect both the definition of an asset and the definition of a liability. In particular, the Exposure Draft proposes to replace the notion of ‘expected’ economic benefits with a notion of the ‘potential to produce’ economic benefits; to define an economic resource as a ‘right’; and to align the asset and liability definitions more closely with each other. **Definition of an asset** The Exposure Draft proposes the following definitions: (a) an asset is a present economic resource controlled by the entity as a result of past events; and (b) an economic resource is a right that has the potential to produce economic benefits. To support these definitions, the Exposure Draft proposes further guidance on: (a) the meaning of the term ‘right’; and (b) the notion of ‘control’, including the role of ‘risks and rewards of ownership’ as one indicator of control and the discussion of agents and principals.	
Definition of a liability The Exposure Draft proposes to define liability as a present obligation of the entity to transfer an economic resource as a result of past events. The Exposure Draft explains that the Board is not proposing now to change the definitions of liabilities and equity to address the problems that arise in classifying instruments with characteristics of both liabilities and equity. It is exploring those problems in its Financial Instruments with Characteristics of Equity research project. That project will help the Board to decide, in due course, whether it should add to its standards-level programme a project on amending IFRS Standards, the *Conceptual Framework* or both. The Exposure Draft states that the Board expects that any such project would not lead to changes in the Exposure Draft’s proposals for identifying whether the reporting entity has a present obligation to transfer an economic resource. Those proposals are not designed to address problems in distinguishing between liabilities and equity.	On 20 April 2016 the Board tentatively decided: (a) not to develop concepts to address challenges that arise in classifying financial instruments with characteristics of both liabilities and equity as part of the *Conceptual Framework* project; (b) instead, to continue to develop concepts to address those challenges in the Financial Instruments with Characteristics of Equity research project, acknowledging that one outcome of that project might be a need to make further amendments to the revised *Conceptual Framework*; and (c) to explain this approach, and highlight the possibility of further amendments to the *Conceptual Framework*, in the Basis for Conclusions accompanying the revised *Conceptual Framework*. Also, the Board tentatively decided: (a) to continue to develop concepts to address other problems in identifying liabilities (such as the concepts describing a ‘present obligation’ in paragraphs

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*
	4.31-4.39 of the Exposure Draft), and add those concepts to the *Conceptual Framework*, as part of the *Conceptual Framework* project; and (b) in developing those concepts, to consider refinements to the proposals in the Exposure Draft to reduce the risk of adding to the *Conceptual Framework* new concepts that the Board may need to revisit as a result of future decisions on classification of financial instruments.
Present obligation The definition of a liability refers to a 'present obligation'. The Exposure Draft proposes that an entity has a present obligation to transfer an economic resource if both: (a) the entity has no practical ability to avoid the transfer; and (b) the obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation. The Exposure Draft proposes additional guidance on the meaning of the phrase 'no practical ability to avoid': 4.32 An entity has no practical ability to avoid a transfer if, for example, the transfer is legally enforceable, or any action necessary to avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself. It is not sufficient that the management of the entity intends to make the transfer or that the transfer is probable. The Basis for Conclusions states that the proposed description of a present obligation would help to resolve questions about whether 'economic compulsion' is sufficient to create a liability: BC4.75 The IASB thinks that [the two criteria specified in the description of a present obligation] make it clear that: (a) economic compulsion may be a factor that reduces the entity's practical ability to avoid a future transfer—so it would need to be considered in assessing whether that criterion is met; but (b) economic compulsion on its own cannot create a present obligation—there is also the requirement for the obligation to have arisen from a past event (receiving economic benefits, or conducting activities, that establish the extent of the entity's obligation).	

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Equity

The Exposure Draft defines equity as the residual interest in the assets of the entity after deducting all its liabilities. It proposes that:

(a) equity claims are claims against the entity that do not meet the definition of a liability;

(b) different equity claims convey to their holders different rights to, for example, receive some or all of the following:

(i) dividends;

(ii) the repayment of contributed equity on liquidation; or

(iii) other equity claims;

(c) to provide useful information, it may be necessary to divide the total carrying amount of equity to reflect differences between equity claims; and

(d) the definition of equity applies to all types of entities.

Definitions of income and expenses

The Exposure Draft proposes only minor changes to the definitions of income and expenses. The purpose of the changes would be to streamline the definitions and align the terminology with that proposed for the definitions of an asset and a liability. The proposed definitions are:

(a) income is increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from holders of equity claims; and

(b) expenses are decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims.

The Exposure Draft proposes to remove from the *Conceptual Framework* some accompanying discussion of specific types of income and expenses—namely gains, losses and revenue.

Other elements

The Exposure Draft does not propose to define any other elements, for example, elements for the statement of changes in equity or elements for the statement of cash flows.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Executory contracts

The Exposure Draft describes an executory contract as a contract that is equally unperformed: neither party has fulfilled any of its obligations, or both parties have fulfilled their obligations partially and to an equal extent.

The Exposure Draft proposes that:

(a) an executory contract establishes a right and an obligation to exchange economic resources;

(b) the right and the obligation to exchange economic resources are interdependent and cannot be separated. Hence, the combined right and obligation constitute a single asset (if the terms of the exchange are favourable) or a single liability (if the terms of the exchange are unfavourable);

(c) whether the asset or liability arising from an executory contract is included in the financial statements depends on both the recognition criteria and the measurement basis adopted for the contract; and

(d) to the extent that a party fulfils its obligation under the contract, the contract ceases to be executory.

Unit of account

The Exposure Draft describes the unit of account as the group of rights, the group of obligations or the group of rights and obligations, to which recognition and measurement requirements are applied.

The Exposure Draft proposes that:

(a) a unit of account is selected for an asset or a liability after considering how recognition and measurement will apply, not only to that asset or liability, but also to the related income and expenses;

(b) the selected unit of account may need to be aggregated or disaggregated for presentation or disclosure purposes;

(c) in some cases, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement;

(d) the objective in selecting a unit of account is to provide the most useful information that can be obtained at a cost that does not exceed the benefits; and

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*
(e) if an entity transfers part of an asset or part of a liability, the unit of account may change at that time so that the transferred component and the retained component become separate units of account. In addition, the Exposure Draft discusses: (a) examples of possible units of account; and (b) how the objective of selecting a unit of account might be met. The Basis for Conclusions on the Exposure Draft explains that the Board believes that the selection of a unit of account is a decision to be taken when developing individual IFRS Standards, not a decision that can be resolved conceptually for a broad range of IFRS Standards. However, in response to comments made on the Discussion Paper, the Exposure Draft provides a more detailed discussion than had been included in the Discussion Paper of the factors that the Board would need to consider when selecting a unit of account.	

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Chapter 5—Recognition and derecognition

Recognition

The Exposure Draft proposes to define recognition as the process of capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of an element.

The existing *Conceptual Framework* specifies three recognition criteria that apply for the recognition of all assets and liabilities:

(a) the item meets the definition of an asset or a liability;

(b) it is probable that any future economic benefit associated with the asset or liability will flow to or from the entity; and

(c) the asset or liability has a cost or value that can be measured reliably.

However, existing IFRS Standards do not all apply these recognition criteria. Accordingly, the Exposure Draft proposes a new approach to recognition. It proposes that assets and liabilities (and any related income, expenses or changes in equity) should be recognised if such recognition provides users of financial statements with:

(a) relevant information about the asset or the liability and about any income, expenses or changes in equity;

(b) a faithful representation of the asset or the liability and of any income, expenses or changes in equity; and

(c) information that results in the benefits exceeding the cost of providing that information.

The supporting discussion identifies circumstances in which recognition may not provide relevant information. These circumstances include some cases in which:

(a) it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists;

(b) there is only a low probability that an inflow or outflow of economic benefits will result; or

(c) a measurement of an asset or a liability is available (or can be obtained), but the level of measurement uncertainty is so high that the resulting information has little relevance and no other relevant measure is available (or can be obtained).

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Derecognition

The Exposure Draft describes derecognition as the removal of all or part of a previously recognised asset or liability from an entity's statement of financial position. For an asset, this normally occurs when the entity loses control of all or part of the previously recognised asset; for a liability this normally occurs when the entity no longer has a present obligation for all or part of the previously recognised liability.

The Exposure Draft proposes that accounting requirements for derecognition should aim to represent faithfully both:

(a) the assets and liabilities retained after the transaction or other event that led to the derecognition (including any asset or liability acquired, incurred or created as part of the transaction or other event); and

(b) the change in the entity's assets and liabilities as a result of that transaction or other event.

The discussion in the Exposure Draft focusses on cases when the two aims conflict with each other. The Exposure Draft describes alternatives available and discusses what factors the Board would need to consider when developing or revising particular Standards.

The Exposure Draft also proposes guidance on how to account for modifications of contracts. In particular, the Exposure Draft states that the accounting may differ depending on whether the rights and obligations that are added by a modification of a contract are distinct from those created by the original terms of the contract.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*
Chapter 6—Measurement	
Measurement bases and the information they provide The Exposure Draft says that consideration of the objective of financial reporting and the qualitative characteristics and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense. It then discusses measurement bases under the headings of historical cost and current value (fair value; and value in use (for assets) and fulfilment value (for liabilities)). The Exposure Draft describes cash-flow-based measurement techniques as means of estimating the measure of an asset or liability on a defined measurement basis, rather than a separate category of measurement basis. These techniques are not therefore described in the body of the Exposure Draft; instead, they are briefly discussed in an Appendix.	On 20 April 2016 the Board tentatively rejected the idea of publishing the *Conceptual Framework* without a chapter on measurement, and undertaking a research project to develop material that could be added to the *Conceptual Framework* at a later date. The Board directed the staff to improve the discussion on measurement in the light of responses to the Exposure Draft.
Factors to consider when selecting a measurement basis The Exposure Draft discusses factors related to selecting a measurement basis for an asset or a liability and the related income and expenses. It notes that the relative importance of each of the factors will depend upon facts and circumstances. The factors are discussed by reference to the qualitative characteristics of financial information: relevance, faithful representation and the enhancing qualitative characteristics of comparability, verifiability and understandability. The Exposure Draft states that timeliness had no specific implications for measurement. It also notes that the selection of a measurement basis is constrained by cost. Factors important for relevance that are identified in the Exposure Draft are: (a) how the asset or liability contributes to cash flows, which depends, in part, on the nature of the business activities conducted by the entity; (b) the characteristics of the asset or the liability, including variability in cash flows and the sensitivity of value of the item to changes in market factors or other risks; and (c) the level of measurement uncertainty. This does not prevent the use of estimates, but may suggest that a different measurement basis may provide more relevant information. The Exposure Draft suggests that faithful representation does not require that measures	

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

must be perfectly accurate in all respects, and that a faithful representation might require a similar measurement basis to be used for related assets and liabilities in order to avoid an accounting mismatch.

The Exposure Draft argues that initial and subsequent measurement could not be considered separately, because a consistent measurement basis is necessary to avoid reporting income or expenses solely as a result of a change in measurement basis. The Exposure Draft also discusses additional factors specific to initial measurement, including:

(a) exchanges of items of similar value.

(b) transactions with holders of equity claims.

(c) exchange of items of different value.

(d) internal construction of an asset.

More than one relevant basis

The Exposure Draft states that:

(a) more than one measurement basis might be needed to provide relevant information about an asset, liability, income or expense.

(b) in most cases the most understandable way to provide that information is by:

  (i) using a single measurement basis both in the statement of financial position and in the statement(s) of financial performance; and

  (ii) disclosing in the notes to the financial statements additional information using the other measurement basis.

(c) in some cases, because of the way in which an asset or a liability contributes to future cash flows (which depends in part on the nature of the business activities conducted by the entity) or because of the characteristics of the asset or the liability, the information provided in the financial statements is made more relevant by using:

  (i) a current value measurement basis for the asset or the liability in the statement of financial position; and

  (ii) a different measurement basis to determine the related income or expenses in the statement of profit or loss with the remaining income or expense in other comprehensive income.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Measurement of equity

The Exposure Draft proposes that:

(a) total equity is not measured directly; instead it equals the total of the carrying amounts of all recognised assets less the total carrying amounts of all recognised liabilities.

(b) the objective of general purpose financial statements is not to show an entity's value; consequently, total equity will not generally equal the market value of the entity's equity.

(c) although total equity is not measured directly, some individual classes or categories of equity may be measured directly.

The Basis for Conclusions explains that, although total equity is not measured directly, it may be necessary to measure individual classes or categories of equity directly to provide useful information.

Proposals in the Exposure Draft	**Tentative decisions for the revised *Conceptual Framework***
Chapter 7—Presentation and disclosure The Exposure Draft includes high-level concepts that describe what information is included in the financial statements and how that information should be presented and disclosed. The Board states that it will seek to develop the concepts proposed in the Exposure Draft and provide additional guidance on presentation and disclosure in the Disclosure Initiative. The Exposure Draft proposes that the scope of information provided in financial statements is determined by their objective. Some of this information is provided by the recognition of items that meet the definition of an element in the statements of financial position and financial performance. Financial statements also provide additional information about recognised items and items that meet the definition of an element but that have not been recognised, and the risks arising from them. Forward-looking information about likely or possible future transactions and events is included in financial statements only if that information is relevant to understanding the entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period. Information about transactions or events that occur after the balance sheet date is included if that information is necessary to meet the objective of financial statements. The Exposure Draft also discusses presentation and disclosure as communication tools. It proposes that efficient and effective communication includes: (a) classifying information in a structured manner that reports similar items together and dissimilar items separately; (b) aggregating information so that it is not obscured by unnecessary detail; and (c) using presentation and disclosure objectives and principles instead of rules that could lead to a purely mechanistic compliance.	
Information about financial performance The Exposure Draft proposes that income and expenses are classified into the statement of profit or loss or other comprehensive income (OCI). The Exposure Draft does not specify whether the statement(s) of financial performance comprise a single statement or two statements.	On 20 April 2016 the Board tentatively decided to provide high-level guidance on reporting financial performance in the *Conceptual Framework*. Such guidance will be based on the proposals in the Exposure Draft, modified in light of the feedback received on the Exposure Draft.

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*
The Exposure Draft does not propose to define profit or loss. Instead, it proposes to describe the statement, or section, of profit or loss as the primary source of information about an entity’s financial performance for the period, and to require a total or subtotal for profit or loss to be provided. The Exposure Draft also proposes that the purpose of the statement of profit or loss is to: (a) depict the return that an entity has made on its economic resources during the period; and (b) provide information that is helpful in assessing prospects for future cash flows and in assessing management’s stewardship of the entity’s resources. Because income and expenses included in the statement of profit or loss are the primary source of information about an entity’s financial performance for the period, the Exposure Draft proposes a presumption that all income and all expenses will be included in that statement. It proposes that income or expenses could be reported outside the statement of profit or loss and included in OCI only if: (a) the income or expenses relate to assets or liabilities measured at current values; and (b) excluding those items from the statement of profit or loss would enhance the relevance of the information in the statement of profit or loss for the period. The Exposure Draft proposes to describe the types of income and expenses for which this presumption cannot be rebutted. Because income and expenses included in the statement of profit or loss are the primary source of information about an entity’s financial performance for the period, the Exposure Draft also proposes a presumption that income or expenses included in OCI in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period. The Exposure Draft proposes that this presumption could be rebutted, for example, if there is no clear basis for identifying the period in which that reclassification would enhance the relevance of the information in the statement of profit or loss. If there is no such basis, it may indicate that the income or expense should not be included in OCI.	

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Chapter 8—Concepts of capital and capital maintenance

The Exposure Draft includes a discussion of capital maintenance that was substantially unchanged from the existing *Conceptual Framework*. The summary and invitation to comment explains that the Board would consider revising the *Conceptual Framework* discussion of capital maintenance if it were to carry out future work on accounting for high inflation, and that no such work is currently planned.

Proposals in the Exposure Draft	**Tentative decisions for the revised *Conceptual Framework***

Other topics

Business activities

In developing the Exposure Draft, the Board formed the view that the nature of an entity's business activities plays different roles in different aspects of financial reporting. Accordingly, the Exposure Draft does not include a general discussion on the role of a business model in financial reporting, but discusses how the way in which an entity conducts its business activities may affect:

(a) the unit of account;

(b) measurement; and

(c) presentation and disclosure, including how to classify assets, liabilities and items of equity, income and expenses. Classification of items of income and expenses includes determining whether to include them in OCI instead of in the statement of profit or loss.

The Board did not identify any situations in which consideration of an entity's business activities would be relevant to the recognition of assets and liabilities and noted that it is performing further research on the distinction between liabilities and equity.

The Exposure Draft does not use the term 'business model' because this term is used with different meanings by various organisations.

Long-term investment

The Exposure Draft does not include a specific discussion about:

(a) long-term investment (or financing) *by* the reporting entity, or

(b) the information needs of long-term investors *in* the reporting entity.

However, the Basis for Conclusions on the Exposure Draft includes a discussion of the implications of long-term investment for Standard-setting. That discussion states that:

(a) the proposals in the Exposure Draft provide sufficient tools for the Board to make appropriate Standard-setting decisions if future projects consider:

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

(ii) whether such entities should report changes in the carrying amount of those

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*
investments (or liabilities) in the statement of profit or loss or other comprehensive income. (b) 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. The Board noted that: (a) referring explicitly to any particular business activity would, inappropriately, embed Standards-level detail in the *Conceptual Framework*; (b) the proposed changes to the objective of financial reporting clarify the need to provide information that helps investors to assess management's stewardship of the entity's resources; (c) the Board's decisions (including decisions on measurement) are driven by an assessment of what information would be useful to all investors; and (d) it is not the role of accounting Standards to encourage or discourage investments that have particular characteristics. **Effects of proposed changes to the *Conceptual Framework*** The Basis for Conclusions on the Exposure Draft: (a) explains that the Board had reviewed existing and proposed Standards to identify any inconsistencies with the proposals for a revised *Conceptual Framework* to enable constituents to better understand the implications of the proposals; (b) identifies the following main inconsistencies: (i) some of the classification requirements in IAS 32 *Financial Instruments: Presentation*; and (ii) the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted in IFRIC 21 *Levies*. (c) identifies a number of minor inconsistencies; (d) proposes that the Board and the IFRS Interpretations Committee should start using the revised *Conceptual Framework* immediately once it is published.	

Proposals in the Exposure Draft	**Tentative decisions for the revised *Conceptual Framework***
A separate Exposure Draft *Updating References to the Conceptual Framework* ('the *Updating References* Exposure Draft') proposes the replacement of references to the *Framework for the Preparation and Presentation of Financial Statements* ('the *Framework*') within two Standards—IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—with references to the revised *Conceptual Framework*. The *Updating References* Exposure Draft explains that this replacement would achieve transition to the revised *Conceptual Framework* for entities that use the *Conceptual Framework* to develop accounting policies. To avoid having concurrent versions of the *Conceptual Framework*, the *Updating References* Exposure Draft also proposes to replace references to the *Framework* in some other Standards and Interpretations. It explains that the Board believes that these changes will not have a significant effect on the requirements of these Standards. For all these changes, the *Updating References* Exposure Draft proposes to set an effective date that would allow a transition period of approximately 18 months between the issue of the revised *Conceptual Framework* and the effective date for each of the amendments proposed by the *Updating References* Exposure Draft. This would allow entities to review the effects of the revised concepts on their accounting policies and prepare for application of changes. Early application would be permitted. The *Updating References* Exposure Draft proposes that the amendments would be applied retrospectively in accordance with IAS 8, except for the proposed amendments to IFRS 3 *Business Combinations*. Amendments to IFRS 3 would be applied prospectively, thereby avoiding the need to restate previous business combinations.	