

**JOINT OUTREACH EVENT**

**IASB EXPOSURE DRAFT ED/2015/3**

**CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING**

**VILNIUS**

**23 SEPTEMBER 2015**

This feedback statement has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by either the EFRAG Board or the EFRAG Technical Expert Group. It has been reviewed by staff of the IASB and has been jointly approved for publication by representatives of EFRAG, the Financial Supervisory Authority, the Ministry of Employment and the Economy, and the Confederation of Finnish Industries who attended the joint outreach event.

## Joint Outreach Event

This feedback statement has been prepared for the convenience of European constituents to summarise a joint outreach event held by EFRAG, the Estonian Ministry of Finance, the Latvian Ministry of Finance and the Lithuanian Authority of Audit and Accounting, in cooperation with the IASB, on 23 September 2015.

The joint outreach event was chaired by Audrius Linartas, Director of the Lithuanian Authority of Audit and Accounting.

The joint outreach event was one of a series organised across Europe following the publication of the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (‘the Exposure Draft’). The purpose of the outreach event was to:

- stimulate debate on the Conceptual Framework in Europe;
- obtain input from European constituents and to understand their main concerns and wishes, in particular from those that may not intend to submit a comment letter to the respective national standard setter, the IASB or EFRAG;
- receive input for the Lithuanian organisers’ potential comment letters to EFRAG and the IASB; and
- learn whether the preliminary comments as set out in EFRAG’s document for public consultation were shared by European constituents.

Joan Brown (IASB Technical Principal) and Jelena Voilo (IASB Technical Assistant Manager) presented the Exposure Draft on selected issues and Filippo Poli (EFRAG Research Director) summarised EFRAG’s document for public consultation. An open debate then took place with participants.

The participants had different backgrounds, and included auditors, regulators and academics.

## Issues covered

Participants discussed the following issues:

- prudence;
- recognition (including how uncertainty should affect recognition versus disclosure);

- measurement, profit or loss and OCI; and
- other issues

## Comments received

### *Prudence*

*A participant thought that changing the concept of prudence could require considerable implementation efforts.*

The Exposure Draft proposes to reintroduce the concept of prudence in the Conceptual Framework. A participant noted that prudence is currently very much influenced by the accounting profession (i.e. by auditors, not regulators) and is interpreted more in terms of asymmetric prudence. Any change in the way the concept should be interpreted would require considerable resources (both for training and for implementation) to allow stakeholders to become aware of the differences.

*A participant thought that it was unclear how prudence was applied in recent standard setting.*

A participant asked how the concept of prudence was applied in recent standard setting. The IASB Technical Assistant Manager replied that the Conceptual Framework is intended to be a forward-looking document. It is very difficult to assess the outcome of standard setting if the revised Conceptual Framework were to be applied.

A participant asked the reason for changing the concept of prudence: were people abusing the old concept? The IASB Technical Assistant Manager confirmed that in some cases in the past, the concept had been abused to achieve certain outcomes. However, she could not assess whether in the current environment this could still occur. She also noted that the removal of the concept of prudence in 2010 was decided in the process of convergence with US GAAP. The EFRAG Research Director noted that he did not perceive a conflict between prudence and neutrality. He interpreted prudence as a more sceptical attitude towards gains, which he considered as being part of the assessment.

*A participant noted that accountants wanted prudence reintroduced to counterweight the over-optimistic attitude of management.*

A participant noted that during the discussions on prudence in the European Parliament, members claimed that accountants were requesting the reintroduction of the concept. The IASB Technical Assistant Manager confirmed that accountants wanted the reintroduction of the concept of prudence because they felt this would act as a counterweight to the over-optimistic attitude of management.

*The IASB Technical Principal noted that investors preferred the current recognition threshold in the accounting for provisions.*

*Recognition (including how uncertainty should affect recognition versus disclosure)*

The Exposure Draft introduces new guidance on whether an item should be recognised. In response to a suggestion that the proposed guidance might give the IASB significant flexibility in specifying recognition criteria for particular standards, the IASB Technical Principal noted that the IASB would be constrained by the need to identify the information that users of financial information found useful, and that preparers of financial information could provide at a cost that did not exceed the benefits. She had been asked to assess the possible impact of the proposed guidance on the accounting for provisions within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. She noted that the proposed guidance required her to go out and ask investors which information they thought was relevant for such provisions. The investors she had consulted had favoured retaining the current recognition threshold (more likely than not). Those investors considered that the grey area of 40 – 60% was relatively rare and that usually the cases were either very likely (recognition) or unlikely (disclosures).

*A participant noted that the impact of the new guidance on government grants had not been examined.*

A participant asked about the impact of the guidance on government grants. The IASB Technical Principal replied that the impact of the guidance on the accounting for government grants had not yet been examined. The main issue in such cases tended to be whether a liability existed, which could depend on the terms of the grant.

The EFRAG Research Director asked about the impact of the guidance on emission trading schemes. He noted that in case the entity was deemed not to have a present obligation to deliver emission rights to the government, this would mean that regulation that is restricting emissions would have a positive effect on the entity's financial position on day one. A participant noted that there had been discussions in Lithuania on the accounting for emission trading schemes, but that, considering the active project at the IASB, it was decided to postpone the discussion until international guidance was available.

### *Measurement, profit or loss and OCI*

The Exposure Draft classifies the measurement bases into two categories: historical cost measures and current value measures. The IASB Technical Assistant Manager noted that, as the Exposure Draft was a forward-looking document, the IASB had not tried to assess how the measurement bases in current IFRS would be classified into these categories. She noted that the IASB would test guidance on the measurement bases at the next World Standard Setters meeting.

### *Other issues*

*A participant thought that it was unclear how the notion of stewardship would affect standard setting.*

A participant asked how the notion of stewardship would impact standard setting. The IASB Technical Principal noted that the IASB considered that, whilst the concept was not explicitly mentioned in the Conceptual Framework, it was already being applied by the IASB in standard setting. Therefore, making the concept explicit was not expected to considerably change how standard setting occurred.

*A participant noted that it was difficult to translate the concept of stewardship into Lithuanian.*

A participant noted the considerable difficulties in translating the term stewardship into the local language. She asked how stewardship would be translated in Lithuanian. Representatives from Latvia and Estonia added that there was no equivalent term to stewardship in their languages either. The IASB Technical Principal noted that the IASB was aware of these practical difficulties and would appreciate any comments in that respect.

A participant asked about the legal status of the Conceptual Framework and why it was not included in the body of IFRS endorsed by the European Union. The EFRAG Technical Manager noted that, during other outreach events, stakeholders had responded that if the Conceptual Framework were endorsed, this may result in legal discussions in future endorsement procedures, if the IASB chose to deviate from the Conceptual Framework for particular standards. He noted that the Exposure Draft *Updating References to the Conceptual Framework* would be subject to the endorsement process.