

JOINT OUTREACH EVENT

IASB DISCUSSION PAPER

**A REVIEW OF THE CONCEPTUAL FRAMEWORK
FOR FINANCIAL REPORTING**

COPENHAGEN

4 NOVEMBER 2013

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 the EFRAG Technical Expert Group. It has been jointly approved for publication by representatives of EFRAG, DI and FSR 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 Confederation of Danish Industry (DI) and FSR – Danish Auditors (FSR), in cooperation with the IASB, on 4 November 2013.

The joint outreach event was chaired by Kristian Koktvedgaard (DI) from the Confederation of Danish Industry. Together with Jan Peter Larsen from FSR - Danish Auditors.

The joint outreach event was one of a series organised across Europe following the publication of the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. The purpose of the outreach event was to:

- stimulate the debate on the Conceptual Framework in Europe;
- obtain input from constituents, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and to understand their main concerns and wishes;
- receive input for the FSR's comment letter to EFRAG and the IASB; and
- learn whether the preliminary comments as set out in EFRAG's draft comment letter were shared by European constituents.

Rasmus Sommer (EFRAG Technical Manager) and Rachel Knubley (IASB Technical Principal) presented the IASB Discussion Paper on selected issues and Rasmus Sommer summarised EFRAG's preliminary positions.

After prepared interventions from Stig Enevoldsen (Member of the FSR's accounting standards committee) and Tina Aggerholm (Vice President, Carlsberg) an open debate took place with participants.

Issues Covered

Participants discussed definitions and recognition of assets and liabilities in addition to profit and loss, OCI and recycling

Participants discussed the following issues:

- definitions of assets, liabilities and recognition; and
- profit and loss, other comprehensive income (OCI) and recycling.

Comments received

Definitions of assets, liabilities and recognition

The asset definition should not include a probability threshold

Lottery tickets, know-how and research ought to be considered as assets according to some of the participants, even if the likelihood of future net cash inflows was low.

However, not all assets should be recognised in the statement of financial position

However, before recognising these assets, some participants thought that reliability of measurement should be considered. Several participants also preferred having probability recognition criteria. Accordingly, some assets should not be recognised in the financial statements, but only disclosed in the notes to these.

Participants had different views on whether recognition criteria for assets and liabilities should be similar

Participants debated whether, in case of litigation, an asset of the plaintiff and a liability of the defendant should be recognised at the same point in time, or liabilities should be recognised earlier in the process than assets. Different views were presented on this issue.

Currently an asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits are *expected* to flow to the entity.

The Discussion Paper proposes to define an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is proposed to be defined as a right, or other source of value, that is *capable* of producing economic benefits.

It was questioned whether the term 'capable' would result in similar interpretation uncertainties as 'expected'

One of the reasons for removing 'expected' from the definition of an asset is that the term has given rise to uncertainty about whether the current asset definition includes some minimum threshold related to the probability of an inflow or outflow of economic benefits. However, a participant thought that the word 'capable' in the proposed definition of an economic resource would result in similar uncertainty.

Participants debated whether remeasurement of a net defined benefit pension asset or liability should be recognised in OCI

Profit and loss, other comprehensive income (OCI) and recycling

The Discussion Paper listed different approaches to what items that would be eligible for being recognised in other comprehensive income. EFRAG's draft comment letter in response to the Discussion Paper favoured the broader approach suggested in the Discussion Paper whereby remeasurement of a net defined benefit pension asset or liability in accordance with IAS 19 could be recognised in OCI. EFRAG noted in its draft comment letter that applying a more narrow approach could artificially limit the IASB's

possibilities for defining the primary performance of an entity.

Participants debated whether remeasurement of a net defined benefit pension asset or liability should be reflected an entity's primary performance. The view was presented that these changes were more related to an entity's performance than items related to an entity's non-core activities which were reported in profit or loss. However, other participants thought that the income and expenses resulting from the remeasurement would distort the assessment of an entity's primary performance.

The business model should play a role in defining primary performance

A participant supported the view expressed in EFRAG's draft comment letter that an entity's business model should play a role in defining primary performance.

OCI should also represent relevant information

Concern was expressed about OCI being used as a dumping ground for items not included in profit or loss. It was thought that OCI should also provide useful information.