JOINT OUTREACH EVENT

IASB DISCUSSION PAPER

A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

VIENNA

5 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 reviewed by IASB staff and has been jointly approved for publication by representatives of EFRAG and AFRAC 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 and AFRAC, in cooperation with the IASB, on 5 November 2013.

The joint outreach event was co-chaired by Alfred Wagenhofer, Chairman of the AFRAC IFR Working Group, and Saskia Slomp, Director at EFRAG.

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 may not intend to submit a comment letter to AFRAC, EFRAG or the IASB, and to understand their main concerns and wishes;
- receive input for AFRAC'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.

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

Issues covered

Participants discussed project's timetable, definitions and recognition of assets and liabilities, distinction between liabilities and equity and measurement

Participants discussed the following issues:

- Conceptual Framework project timetable;
- Definitions of the elements of financial statements;
- Recognition of assets and liabilities;
- Distinction between liabilities and equity; and
- Measurement.

Comments received

Conceptual Framework timetable

The IASB should take the time to develop conceptually sound long- term solutions

Participants noted that revisions of the Conceptual Framework are not easy and do not happen very often, therefore once the new Conceptual Framework is issued it is quite likely it will not be changed for many years. They thought that the IASB should take the time to develop conceptually sound long-term solutions.

Definitions of the elements of financial statements

The term 'capable' in the definition of economic resource is understandable

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. Participants had no problem understanding the term 'capable' in the definition of economic resource.

'To the entity' should be added to the proposed definition of an economic resource

Participants also debated whether 'to the entity' should be added to the proposed definition of an economic resource included in the Discussion Paper. Several agreed. A participant noted that if an entity owns an apple tree it can account for the benefits from the apples but not from the oxygen the apple tree generates. Although the oxygen is the item that is benefiting society in general, rather than the entity, he thought that it should still be considered as an economic resource.

Statement of cash flows is costly to prepare and provides little relevant information for financial institutions

Feedback from EFRAG's outreach activities in relation to the staff draft of the exposure draft *Financial Statement Presentation* suggests that the statements of cash flows, as currently defined, are of little value to the users of the financial statements of financial institutions, including insurance entities. A participant thought that the statement of cash flows was not needed for financial institutions as the information could be derived from other parts of the financial statements. It was also stated that the statement of cash flows is costly to prepare and provides little relevance for financial institutions.

Concerns regarding the symmetry between asset and liability definitions

Some support for the narrow View 1 on the meaning of 'present' in the definition of a liability

One participant raised the question of symmetry between asset and liability definitions. In particular, he questioned whether an asset would arise for the counterparty if the interpretation 'present obligations' suggested under View 3 were adopted. The same participant expressed support for View 1 (obligation should be strictly unconditional). Another participant noted that practical accounting aspects related to this issue are actually connected with recognition and measurement, i.e. when these items 'hit the books'.

	Recognition of assets and liabilities
The need to change the principles of asset and liability recognition from IAS 37 at the conceptual level was questioned	Participants noted that debates about the necessity of recognition thresholds are very similar to the IAS 37 revision project debates. A participant thought that in practice there are almost no problems with the application of IAS 37 requirements and wondered about the merits of changing the IAS 37 principles. The same participant then added that in the case of legal proceedings changes in the estimated probabilities of inflows or outflows around recognition thresholds could result in changes in whether an asset or liability would be recognised or not. These recognition/non-recognition swings would provide useful information.
Consistency for recognition of assets and liabilities at least on a conceptual level	Another participant added that the recognition criteria for assets and liabilities should be consistent, at least on a conceptual level. He noted that some intangibles are easier to measure than some liabilities (e.g. provisions), but in accordance with current standards the intangible is not recognised but the liability is. He wondered how the Conceptual Framework would make sure that the recognition symmetry would also be translated to the standards level.
	Distinction between liabilities and equity
Proposals in the DP do not provide intuitive solutions for NCI puts	One participant thought that proposals in the Discussion Paper do not provide intuitive solutions for the instruments that allow non-controlling interests to put their holdings back to the entity (‘NCI puts’) and supported EFRAG’s position on the treatment of secondary equity claims, i.e. to remeasure them (as if they were financial assets or liabilities) through comprehensive income.
The liability/equity distinction proposals were not supported. The expanded statement of changes in equity is complex and difficult to understand	Another participant expressed the view that he always considered equity as a residual and that the book value of equity is thus always dependent on the measurement of assets and liabilities. He was struggling with any concept that resulted in the direct measurement of some components of equity. He thought that what is actually needed is a good understanding of the instruments.
Some support for EFRAG's view that entities with no equity instruments should, at least conceptually, report no equity	Generally, the liability/equity distinction proposals did not get much support. It was stated that the proposed expanded statement of changes in equity was complex and difficult to understand. Another participant raised the issue of classification of the most subordinated class of instruments in some corporate structures common across Europe. There was some support for EFRAG's view that where an entity has issued no equity the IASB's approach of treating the most subordinated class of instruments as if they

were equity instruments is not appropriate.

Measurement

Participants generally supported the IASB's measurement proposals

Participants generally supported the IASB's measurement proposals, especially the IASB's acknowledgement that a single measurement basis for all assets and liabilities will not provide the most relevant information for users of financial statements.

However, one participant was against the use of the business model in the field of measurement because he thought that the same measurement could be applied to different cash flow patterns.