JOINT OUTREACH EVENT

IASB DISCUSSION PAPER

A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

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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 the AAT 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 the Lithuanian Authority of Audit and Accounting (AAT), in cooperation with the IASB, on 5 November 2013.

The joint outreach event was chaired by Audrius Linartas, Director of the AAT.

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 the AAT, EFRAG or the IASB, and to understand their main concerns and wishes; and
- learn whether the preliminary comments as set out in EFRAG's draft comment letter were shared by European constituents.

Ian Mackintosh, Vice-Chairman of the IASB, introduced the project and added additional information on the IASB's thoughts during the development process. Rasmus Sommer and Benjamin Reilly of EFRAG explained the IASB's proposals and EFRAG's thoughts in its draft comment letter.

Following the introduction of each topic, there was an open discussion including participants and speakers.

Issues covered

Participants discussed the following issues:

- The objective of financial reporting, stewardship, reliability and prudence;
- Measurement;
- Definitions of assets and liabilities and recognition and derecognition; and
- Distinguishing between equity instruments and liabilities.

Following the introduction of each topic, there was an open discussion including participants and speakers.

Discussion

The objective of financial reporting, stewardship, reliability and prudence

Stewardship does not mean not using fair value

Participants and speakers discussed the role of stewardship and whether there was a conflict between the provision of information about an entity's previous transactions with the provision of information useful for predicting future net cash inflows. One speaker linked the difference between looking back, at what an entity has done, to looking forward, at what may happen. Another speaker thought that actual conflicts in standard-setting were rare. Users of financial statements needed fair values. One example was supermarkets who purchased 'land-banks' for potential future development. Holding these at historical cost may result in misleading information for investors as they are not being used to generate cash flows.

It may be difficult to translate 'stewardship'

Participants questioned how easy it was to translate stewardship and were not convinced it would be easy to do so.

'Reliable' is easier to understand than 'faithful representation'

On reliability, speakers discussed its removal from the Conceptual Framework, noting that it had been done at the request of the FASB as part of the then joint project. The notion of faithful representation was not widely understood. This was particularly the case because there was no distinction made of materiality in the context of faithful representation.

A broader discussion was taking place on prudence

There was a broader discussion taking place on prudence, including at the European Parliament. Speakers noted the absence of prudence from the Conceptual Framework had been taken as meaning that IFRS could not be in compliance with European law, despite it having been in the previous framework that was the base for most current IFRS. Views on whether to reintroduce it in the revised Conceptual Framework were very different along geographical lines. It was also noted that evidence shows investors are more sensitive to bad news than good and that a proper understanding of prudence meant not overstating assets or profits and understanding liabilities or losses. One speaker thought that if the worry was about companies being too optimistic, a proper implementation of neutral would address this. Calling for prudence could be a two-edged sword given the different meanings people applied to it. There was also a link to some people calling for reductions in the use of fair value.

Measurement

Lots of measurement bases increases complexity

Speakers noted that having lots of measurement bases in financial statements increases the complexity, both for preparers and for users. The proposal could help to reduce this increase in complexity.

A mixed measurement model was appropriate, and fair value did not always give the most useful information

Speakers agreed that a mixed measurement model gave useful information. One participant questioned the requirements of current IFRS and whether this always resulted in the most useful information, for example the requirement to fair value all biological assets.

How assets and liabilities are used is important in choosing a measurement basis

Speakers also noted that the uses of assets, and how liabilities will be settled, was important. Although IFRS 13 currently defines fair value on a market basis in reality this frequently means the use of models.

Definitions of assets and liabilities and recognition/derecognition

Widening the definition of 'assets' and 'liabilities' was required in order to include items such as options

Speakers discussed the proposed revised definitions of assets and liabilities, noting that widening the definition was required for some common items, including out of the money options, where there was no expectation of future economic benefits. The effect was that a lottery ticket would meet the definition of an asset. It was agreed that this broadened definition would mean that there was a greater importance on recognition and measurement in the Conceptual Framework.

The word 'expected' is currently a relatively high hurdle

A participant questioned the effect of changes in these revised definitions, noting that IFRS still did not cover all transactions. At the moment the inclusion of 'expected' meant that there was a relatively high hurdle.

Constructive obligations should be included in the definition of a liability

'Practically unconditional' could be difficult to define

Participants discussed constructive obligations and there was agreement that these should be included within the definition of a liability. One speaker noted that there was a problem in defining 'practically unconditional' and that this could lead to divergence.

Distinguishing between equity instruments and liabilities

It was important that what people thought of as ownership instruments were classified as equity

One participant noted that in a revision to the local GAAP it had been decided to take an approach where all shares were equity, and a participant expressed concern that the usability of financial statements might be impaired if what people thought of as ownership instruments were not part of equity.

More information about equity instruments was good, but it was not clear this should be part of the Conceptual Framework	It was thought that providing more information about equity instruments was to be welcomed, but it was not clear that was part of a Conceptual Framework level decision or could come out of that.