



European Financial Reporting Advisory Group ■



KSR

KOMITET STANDARDÓW RACHUNKOWOŚCI



JOINT OUTREACH EVENT

IASB DISCUSSION PAPER

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

WARSAW

19 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 the KSR 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 Polish Accounting Standards Committee (KSR) in cooperation with the IASB and the World Bank Centre for Financial Reporting Reform within the framework of the Swiss-Polish Cooperation Programme on 19 November 2013.

The event was chaired by Joanna Dadacz, Chairman of the KSR.

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 KSR, EFRAG or the IASB, and to understand their main concerns and wishes;
- receive input for the KSR 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.

David Cairns, Secretary-General of the International Accounting Standards Committee from 1985 to 1994 explained the development of the 1989 Conceptual Framework and the need for revisions to that Framework.

David Cairns summarised the conclusions reached at the recent workshops on the revisions to the Conceptual Framework organised by the Polish Ministry of Finance. The workshops were led by the World Bank Centre for Financial Reporting Reform within the framework of the Swiss-Polish Cooperation Programme.

Rachel Knubley (IASB Technical Principal) presented selected topics from the Discussion Paper and Rasmus Sommer (EFRAG Senior Technical Manager) summarised EFRAG's preliminary positions. Following the introduction of each topic, there was an open discussion including participants and speakers.

Joanna Frykowska, member of the EFRAG Technical Expert Group, summarised the discussion and informed participants how they can contribute to the EFRAG consultation process.

Conclusions from Ministry of Finance workshops

Prudence

David Cairns explained that participants at the workshops had discussed different definitions of prudence. They agreed that the Conceptual Framework should require:

- the inclusion of a degree of caution in the exercise of judgements needed in making the estimates required under conditions of uncertainty;
- require the recognition of all liabilities and losses incurred up to and including the reporting date, and
- the use of a mixed measurement model with a similar mix of the historical cost model and the fair value model as current IFRS.

Participants at the workshop had also agreed that the Conceptual Framework should:

- **not** require or permit the creation of hidden or secret reserves;
- **not** require or permit the recognition of foreseeable or potential liabilities or losses that are expected to be incurred after the reporting date;
- **not** prohibit the use of the fair value model; and
- **not** limit the use of the fair value model to assets and liabilities for which the fair values can be measured only by reference to quoted prices in active markets.

Measurement

Participants at the workshops also noted that, as acknowledged in the 1989 Conceptual Framework, assets and liabilities in IFRS financial statements are most commonly measured in accordance with the recoverable historical cost model. Participants expected this to continue.

Issues covered during outreach event

Participants discussed a number of key topics from the Discussion Paper

Participants discussed the following issues:

- Definitions of assets and liabilities, recognition and derecognition and the distinction between equity instruments and liabilities;
- Measurement and the use of profit or loss or other comprehensive income; and
- The role of stewardship, reliability and prudence.

Comments received

Definitions of assets and liabilities, recognition and derecognition and the distinction between equity instruments and liabilities

It was not clear that ‘capable’ was properly translatable into Polish,

One participant expressed doubts whether the proposed definitions were improvements but agreed with the DP that the fundamental issue is the definition of ‘economic resource’. However although economic resource was the fundamental issue, it was not clear that ‘capable’ was fully understandable once translated into Polish.

It was not clear that goodwill was capable of resulting in an inflow of economic resources

The same participant noted that under current accounting conventions assets were frequently not assessed as to whether they were individually capable of generating economic benefits. Examples of these were some fixed assets, which were measured at historical cost, and then depreciated over their useful economic lives or goodwill, which was measured at cost and then impaired. It was not clear if some of these items would meet the definition of assets.

‘Economic resources’ needed to be defined properly

Another participant agreed with the earlier participant that the term ‘economic resources’ was important and needed to be defined properly.

It may be possible to have a source of value without any rights to an asset

In terms of economic resources, one participant thought that it may be possible to have a source of value without any rights to an asset and that this should be addressed.

Control is expressed differently across standards

Another participant expressed doubts about the notion of control, especially given that it is expressed differently across standards.

There was the potential for

A participant thought that there was potential for

misunderstandings caused by different cultural views on what a resource was

misunderstandings caused by different cultural views on what is a resource. In particular, the participant asked how the notion of a 'resource' should be understood and suggested that 'control' may be translated as 'supervision' rather than being able to direct.

There may be unintended consequences to the changes in definitions

One participant expressed serious concerns about the proposed changes to the definitions of assets and liabilities, and was worried that they may have unintended consequences. In particular, it was not clear how they applied to own shares or circular arrangements in which an entity loans money to its holding company for investment in the entity itself.

It was good to separate the definitions from the recognition criteria

Another participant supported the removal of 'expected' from the definitions of assets and liabilities. In particular, the proposed approach solved problems regarding contingent assets and liabilities, by including them in the definition and making recognition and measurement of them separate issues. This participant expressed the view that it was important that these revised definitions were not contaminated by the recognition criteria.

Recognition thresholds were now critical and a probability threshold may be appropriate

In relation to recognition, one participant expressed the view that recognition thresholds were now critical and wondered whether a probability threshold may be a good idea in the recognition criteria. However it was not clear whether a probability threshold should be whether it was probable something was capable of resulting in economic benefits or the probability of a resulting inflow occurring.

Measurement

A mixed measurement model was appropriate, but clearer guidance was needed on what basis should be used

On measurement, a participant agreed with the use of a mixed measurement model, but would like clearer guidance to be included in the Conceptual Framework on what basis should be used. Another participant expressed the view that the stated objective of measurement in relation to fair representation of resources and claims – a balance sheet approach - was not well linked to tax law, which focused on profit.

Use of profit or loss or other comprehensive income

People saw a link between capital maintenance and the distinction between profit or loss and other comprehensive income

A participant asked what 'profit' was in the context of financial performance. In Poland during the 1990s there had been a requirement to update the carrying amounts of certain items on balance sheets to current values to reflect the consequences of high inflation. The participant expressed the view that under the

definitions in the proposed Conceptual Framework, the increases in carrying amounts arising from the revaluations would be income and, therefore, be included in profit or loss for the period. This would lead to pressure to distribute the profits. Under the Polish requirements increases in carrying amounts were recognised directly in equity as capital maintenance adjustments as envisaged by the 1989 Conceptual Framework. No distinction was drawn in the proposals between OCI and capital maintenance adjustments.

Some people see OCI as undistributable income

It was difficult to see from the proposals when Other Comprehensive Income (OCI) should be used. Lots of people saw OCI as income that was not yet available for distribution.

Recycling of OCI would lead to profit manipulation

In relation to OCI, a participant strongly disagreed with recycling of OCI as it would lead to profit manipulation.

The meaning of OCI was unclear and recycling was inconsistent with the definitions of income and expense

In relation to recycling a participant queried whether recycling was consistent with the definitions of income and expense. The entries in the profit or loss account and in OCI would not meet the definition of income or expense so why should they be made? This was supported by an additional participant, who noted that the profit or loss and total comprehensive income figures were for a period. Introducing recycling would mean income and expense relating to previous periods was being recognised for a second time.

It was important to focus on the understandability of presentation to the users of the financial statements

The overall approach of the Conceptual Framework was questioned by one participant, who noted that users were the most important people in financial reporting, but they were not accountants. When developing the Conceptual Framework and standards it was important to remember this and to focus on understandability of presentation to the users of the financial statements. The broad approach to OCI proposed could lead to problems in understandability for users. Another participant agreed that there was potentially a conflict between the views of users and of preparers. There was a tacit assumption that users understood what was being presented. This could be an issue generally, but having lots of different items in OCI could make the financial statements less understandable to users here.