

February
2013

KEEP UP WITH GETTING A BETTER FRAMEWORK

STATUS OF THE PROJECT

The IASB has agreed on a plan to finalise the last chapters of the Conceptual Framework by September 2015. According to that plan, a Discussion Paper should be issued in July 2013 which will cover:

- Elements of financial statements (including recognition and derecognition)
- Measurement
- Reporting entity (the IASB may, however, decide not to address the issue until an Exposure Draft is issued)
- Presentation and disclosure (including questions about the use of other comprehensive income (OCI)).

While the IASB has not made any technical decisions yet, as of 14 February 2013 it has held sessions on: the reporting entity; measurement; liability/equity; definitions of assets and liabilities; and presentation (including OCI). The following paragraphs summarise those discussions.

KEEPING EUROPEAN CONSTITUENTS INFORMED OF THE DEBATE ON CONCEPTUAL FRAMEWORK

On 6 February 2013, the European Financial Reporting Advisory Group (EFRAG), the French Autorité des Normes Comptables (ANC), the Accounting Standards Committee of Germany (ASCG), the Organismo Italiano di Contabilità (OIC) and the UK Financial Reporting Council (FRC) issued their strategy for work on the Conceptual Framework of the IASB.

In order to best keep you informed of the debate developments with the IASB and other stakeholders, the project partners decided to produce regular newsletters, of which this is the first.

BULLETINS TO STIMULATE DEBATE

The project partners will also be issuing short Bulletins each discussing specific issues that arise in the course of the project, in order to stimulate debate. Comments received on the Bulletins will be considered in developing views and will be submitted to the IASB.



REPORTING ENTITY

With regards to the reporting entity, the points considered were the main issues that came out of the 2010 Exposure Draft and the comments received in response to it. Comments from IASB members included:

- Whether the Conceptual Framework should say something about the perspective of financial statements (entity versus proprietary view)?
- Whether a chapter on the reporting entity was sufficiently important for the IASB to consider in the current revision of the Conceptual Framework?

LIABILITY/EQUITY

The IASB staff noted that there are currently problems with distinguishing between liabilities and equity. IAS 32 includes specific requirements that are inconsistent with the current definition of liabilities (e.g. transactions settled in an entity's own shares).

It was discussed:

- Whether equity should be defined or considered a residual?
- Whether the statement of changes in equity should be expended to show transactions between equity holders (including potential future shareholders)?

MEASUREMENT

The IASB staff noted that the existing Conceptual Framework says little about measurement. For example, it does not provide guidance on what the different measurement bases are and whether one measurement basis is preferable to multiple measurement bases.

IASB members discussed:

- Whether measurement should be based on a single basis or a mixed basis?
- Whether the business model should play a role in discussing measurement?

DEFINITIONS OF ASSETS AND LIABILITIES

The IASB has identified some problems relating to the existing definitions of assets and liabilities (including the guidance on liabilities included in IAS 37).

For assets, the definition requires that one is searching for 'past events', even though it could be argued that the focus should be on whether a resource presently exists. The definition also results in confusion between the resource and the resulting inflows. As the definition refers to 'from which future economic benefits are expected to flow' it could leave the impression that if the probability of an inflow is low, an asset would not exist.

For liabilities it is, for example, unclear what 'expected to result in an outflow' means and whether a liability exists if any future transfer would be conditional on events that the entity could avoid through its future actions.

One of the questions from IASB members was whether the current definition of an asset was sufficiently broken to replace it instead of just explaining it.

PRESENTATION (INCLUDING OCI)

European and other constituents have indicated that they attach great importance to clear principles for the items to be included in OCI. The IASB staff has identified three alternative approaches to deal with the issue. One of the approaches is to deal with the issue in a separate project or at standard level. Another approach is to remove distinction between profit or loss and OCI. IASB members, however, thought that this alternative was unlikely to be chosen. The final alternative is to define/characterise profit or loss; and/or OCI in the Conceptual Framework.