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IFRS bulletin from PwC

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IASB issues discussion paper on Conceptual Framework

What is the issue?

The IASB has issued a discussion paper (DP) on its Conceptual Framework (the 'Framework'). The project was restarted in 2012 in response to feedback from the public consultation launched by the IASB to receive input for its future work plan. Many responded that the IASB should give priority to updating the Framework.

The IASB initiated a project in 2004 to replace the existing framework originally published in 1989. It published two chapters, on 'the objectives of general purpose financial reporting' and 'the qualitative characteristics of financial statements', and an exposure draft on the reporting entity in 2010, before the project was suspended.

What are the key questions?

The DP seeks feedback from respondents on key areas that were not covered in its previous work. The IASB has expressed a preliminary view in some areas, but not in others.

Purpose and status of the Framework

The DP proposes that the primary purpose of the Framework is to assist the IASB by identifying consistent principles to use in developing and revising IFRSs. The Framework might also help other interested parties to understand and interpret IFRSs. New or revised guidance that departs from the Framework will be explained.

Elements of financial statements

The DP defines the key elements of the financial statements. It proposes removing the probability threshold from the definitions of, and the recognition criteria for, assets and liabilities. It also asks respondents to consider the definition of a constructive obligation and the meaning of 'present' obligation in the context of conditional liabilities.

Recognition or derecognition

The DP proposes that all assets and liabilities should be recognised, unless recognition results in information that is not relevant (or is not sufficiently relevant to justify the cost) or unless no measure would faithfully represent the asset or liability. An entity should derecognise an asset or liability where it no longer meets the recognition criteria.

Equity liability boundary

The DP retains the existing definition of 'equity' as the 'residual interest in the assets after deducting all liabilities'. But it proposes 'remeasuring' each class of equity and recognising those remeasurements as a transfer of wealth between classes. The DP also requests feedback on the classification of obligations to issue equity instruments and obligations that arise only on liquidation.

Measurement

The DP describes the objective of measurement as 'to contribute to the faithful representation of relevant information'. The IASB's preliminary views are that:

- a single measurement basis might not provide the most relevant information;
- the relevance of a particular measurement method depends on how users are likely to assess how an asset or liability will contribute to future cash flows;
- the cost of a particular measurement must be justified by the benefits of reporting that information; and
- the number of different measures used should be the minimum necessary to provide relevant information.

Presentation and disclosure

The DP distinguishes between 'presentation' and 'disclosure'. It also describes the purpose of disclosures, including an explanation of what information is relevant for the notes and how this should be communicated. The proposals complement the IASB's ongoing work on disclosures.

Other comprehensive income

The DP proposes two possible methods for determining what should be recognised in other comprehensive income. The IASB also acknowledges (but does not favour) the option of a single statement approach, with no specific requirement for a 'profit and loss' subtotal and no recycling.

Other areas

The DP requests feedback on how the Framework should consider other fundamental concepts including the business model, unit of account, going concern and capital maintenance. Respondents are also invited to comment on the existing Framework, including specifically how the completed chapters address stewardship, reliability and prudence.

Am I affected?

The Framework is relevant to all stakeholders of financial reporting. The primary purpose of the Framework will be to assist the IASB in its standard-setting process, and so it will affect the development of accounting standards going forward.

What is next?

The deadline for comment is 14 January 2014. The extended comment period allows respondents extra time to provide fully considered responses to the proposals.

After the DP phase, the next step will be an exposure draft and final publication of the Framework. But, even after this, there will be no immediate changes to any of the existing standards. The Framework will be the basis for developing new standards and revising existing standards, but it might be a considerable time before all IFRSs are based on the same new Framework.