

Overview of the *Conceptual Framework*

Agenda ref: WSS4

Rachel Knubley, Associate Director, IASB
Anne McGeachin, Technical Principal, IASB
Jelena Voilo, Technical Manager, IASB

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Agenda

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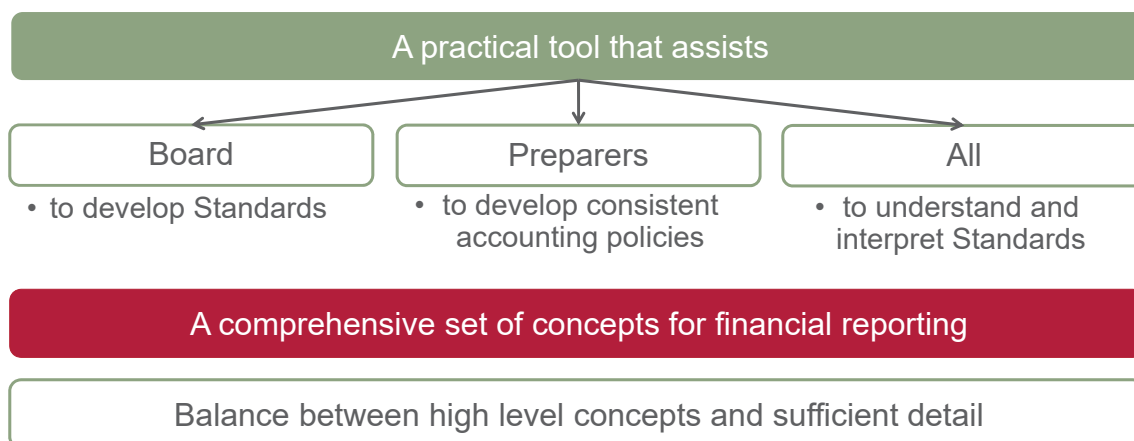
- Introduction to the 2018 *Conceptual Framework*
- The objective and qualitative characteristics
- The elements of financial statements and recognition
- Measurement
- Presentation and disclosure, including profit or loss and other comprehensive income
- Q&A

Introduction to the 2018 *Conceptual Framework*



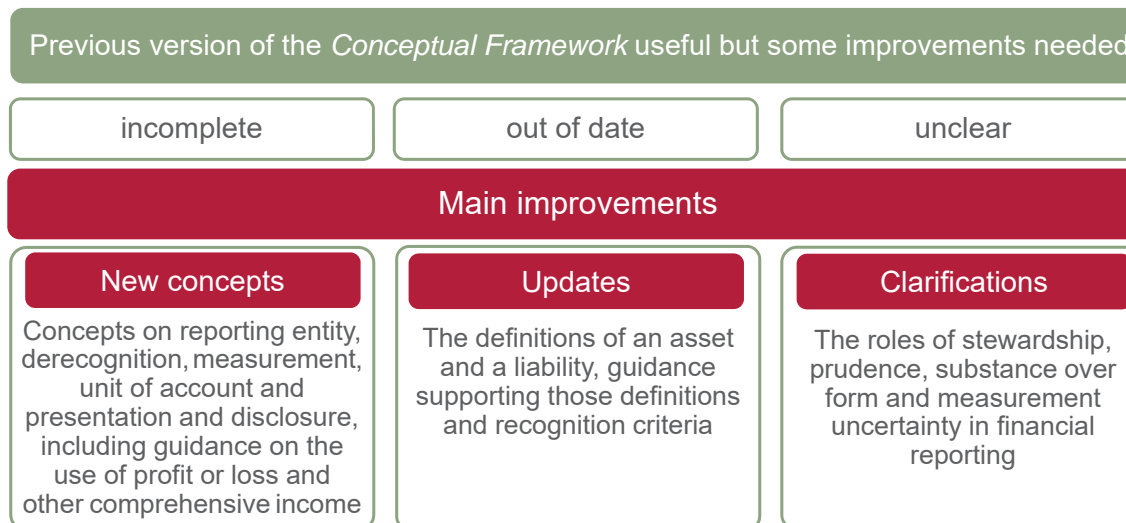
What is the *Conceptual Framework*?

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Highlights of the 2018 *Conceptual Framework*

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Effects of the 2018 revision

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Board/IFRS Interpretations Committee

- Underpins the Board's decisions in setting Standards but the Board **can depart from aspects** of the *Conceptual Framework* to **meet the objective** of financial reporting
- Standards are interpreted in the context of the 2018 *Conceptual Framework*
- **Effective immediately**

Preparers

- Directly affects only those who develop accounting policies using the *Conceptual Framework* when no applicable Standard applies
 - See ***Amendments to References to the Conceptual Framework in IFRS Standards***
 - **Effective 1 January 2020**
- Indirectly affects preparers when future Standards become effective

Not a Standard and does not override Standards



The objective and qualitative characteristics



Objective of general purpose financial reporting

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Provide financial information **useful** to primary users of financial reports in making decisions about providing resources to the entity

buy, hold or sell

provide or settle loans

vote and influence management

clarified

Assess the prospects for **future net cash inflows**

Assess **management's stewardship** of the entity's resources

clarified

To make those assessments users need information about

economic resources, claims and changes in them

how efficiently/effectively management discharges its responsibilities

Primary users of financial reports

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Existing and potential

investors
lenders
other creditors

Financial reports:

- focus on **common information needs**
- can include additional information that is most useful to a particular subset of primary users
- not directed at other parties, for example, regulators or members of the public

Qualitative characteristics

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Fundamental qualitative characteristics

Relevance

- Capable of making a difference to the decisions made by users
- Predictive or confirmatory value

Faithful representation

clarified

- Represents the substance of the economic phenomena
- Complete, neutral and free from error

Enhancing qualitative characteristics

Comparability

Verifiability

Timeliness

Understandability

Cost constraint



Clarifying aspects of faithful representation

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neutrality

Prudence

- Exercise of caution under conditions of uncertainty
- Does not allow for overstatement or understatement of assets, liabilities, income or expenses
- Standards may contain asymmetric requirements if this is necessary to achieve the objective of financial reporting

clarified

free from error

Measurement uncertainty

- Arises when monetary amounts cannot be observed directly
- Estimates are an essential part of preparing financial information
- Does not prevent information from being useful but if high may affect whether a sufficiently faithful representation can be achieved

clarified

Substance over form

- In many circumstances, economic substance of the underlying economic phenomenon is the same as the legal form
- If not, need to represent the substance to provide a faithful representation

clarified



Trade-off

clarified

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A trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting

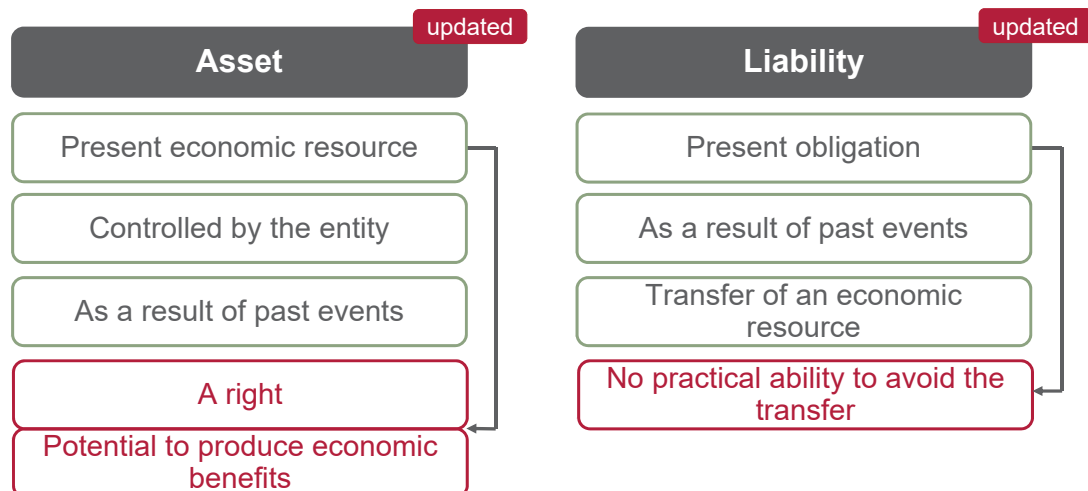


The elements of financial statements and recognition



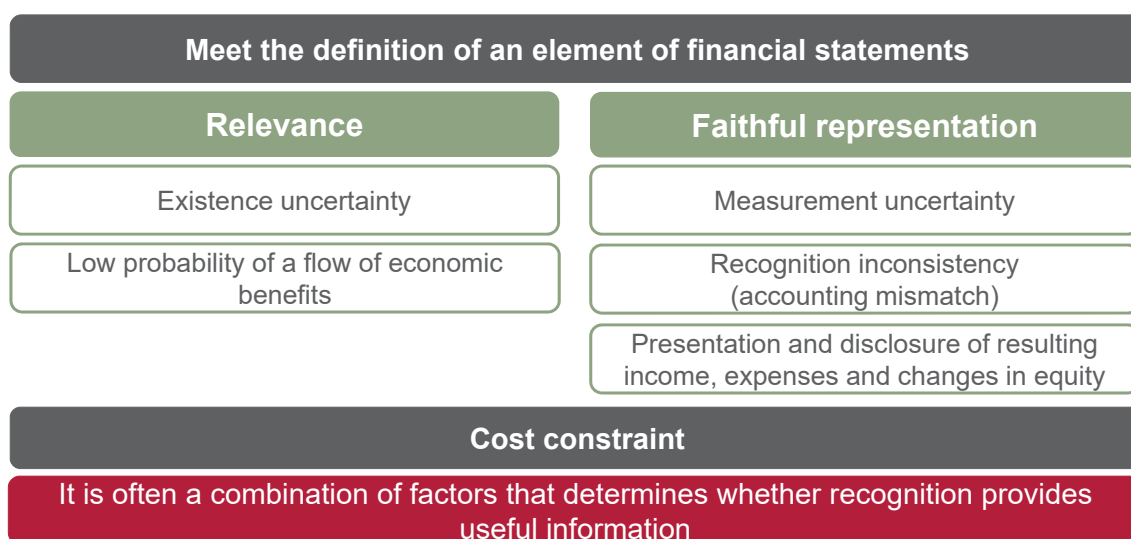
Elements of financial statements – assets and liabilities

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Recognition criteria

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Elements of financial statements – equity, income and expenses

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Equity

The residual interest in the assets of the entity after deducting all its liabilities

Financial Instruments with Characteristics of Equity research project explores how to distinguish liabilities from equity

Income

Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Expenses

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

Information about income and expenses is just as important as information about assets and liabilities



Measurement



Measurement bases

new

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Mixed measurement model

Historical cost

includes

Amortised cost

Derived from transaction or other event that gave rise to the asset or liability

Information about margins

Current value

Fair value

Value in use

Fulfilment value

Current cost

Updated to reflect conditions on the measurement date

Information about changes in prices and other factors

Selecting a measurement basis

new

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Relevance

Characteristics of the asset or liability

Contribution to future cash flows

Faithful representation

Measurement inconsistency (accounting mismatch)

Measurement uncertainty

Information in both the statement of financial position and the statement(s) of financial performance

Enhancing qualitative characteristics and cost constraint



Presentation and disclosure

Presentation and disclosure – objectives and principles

new

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To consider when developing presentation/disclosure requirements in Standards

Balance between:

- giving entities the **flexibility** to provide useful information
- requiring information that is **comparable**

Presentation/ disclosure **objectives** to help entities to:

- identify useful information
- decide how to communicate it in the most effective manner

Effective communication **principles**:

- entity-specific information is more useful than 'boilerplate'
- duplication of information makes financial statements less understandable

Profit or loss and OCI

new

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Statement of profit or loss

- **Primary**, but not the only, source of information about performance
- Profit or loss is a required (sub)total
- In principle, all income and expenses are included in the statement of profit or loss

Other comprehensive income

- **Exceptional circumstances**
- Only changes in current values of assets and liabilities
- In principle, OCI items are recycled

Classification into profit or loss and OCI and recycling

Relevance

Faithful representation

Only the Board can make decisions on OCI and recycling



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