Better Communication and Conceptual Framework

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Introduction

- Conceptual Framework
- Disclosure Initiative
  — Principles of Disclosure project
- Q&A
Conceptual Framework for Financial Reporting
Conceptual Framework at a glance

Underpins development and application of IFRS Standards

Expected publication in 2017 with immediate effect for the Board

Structure

- Objective: Clarified
- Qualitative characteristics: Clarified
- Reporting entity: New
- Elements: Updated
- Recognition: Updated
- Derecognition: New
- Measurement: New
- Presentation & disclosure: New
- Capital maintenance: Unchanged
Objective of general purpose financial reporting

Provide financial information that is useful in making decisions.

Decisions relating to providing resources to the entity:
- Buy, hold or sell
- Provide or settle loans
- Vote, and influence management

Decisions depend on users’ assessments about:
- Prospects for future net cash inflows
- Management’s stewardship of the entity’s economic resources

To make those assessments, users need information about:
- Resources and claims and changes in them
- How efficiently/effectively management discharges its responsibilities
Fundamental qualitative characteristics

Relevance
Capable of making a difference in the decisions made by users

Faithful representation
Depicting substance of the phenomena
Neutral Complete Free from error

Prudence
Measurement uncertainty

Enhancing qualitative characteristics
Comparability Verifiability Timeliness Understandability

Cost constraint
Asset
Definition and supporting concepts

Existing Conceptual Framework

- Resource
- Controlled by the entity
- As a result of past events
- Expected inflow of economic benefits

Revised Conceptual Framework

- Present economic resource
- Controlled by the entity
- As a result of past events
- A right
- Potential to produce economic benefits
Liability
Definition and supporting concepts

Existing Conceptual Framework

Present obligation
As a result of past events
Expected outflow of economic benefits

Revised Conceptual Framework

Present obligation
As a result of past events
To transfer an economic resource
No practical ability to avoid the transfer
Recognition criteria

Recognition of an item

Meet the definition of an asset, a liability, equity, income or expenses

Recognition criteria

Relevance
- Existence uncertainty
- Low probability of a flow of economic benefits
- Separability
- Other factors

Faithful representation
- Measurement uncertainty
- ‘Accounting mismatch’
- Other factors

Cost constraint

7./8. September 2017
16. IFRS Kongress 2017
Measurement bases

**Historical cost**
- includes amortised cost

**Current value**
- Fair value
- Value in Use (for assets)
- Fulfilment value (for liabilities)
- Current cost
Selecting a measurement basis

Information to be considered

- Information in the statement of financial position
- Information in the statement(s) of financial performance

Relevance
- Characteristics of the asset or liability
- How that asset or liability contributes to future cash flows

Faithful representation
- Measurement inconsistency (‘accounting mismatch’)
- Measurement uncertainty

Enhancing qualitative characteristics

Cost constraint
Profit or loss and OCI

Profit or loss
Primary source of information about performance
Default location for income and expenses

OCI
Exceptional circumstances
Only changes in current values of assets and liabilities

Default reclassification to profit or loss (recycling)

Only the Board can make decisions on OCI and recycling
Relevance
Faithful representation
Disclosure Initiative
Principles of Disclosure project
Central theme of the Board’s work

Better Communication in Financial Reporting

Primary Financial Statements

Disclosure Initiative

IFRS Taxonomy™

Content and its organisation

Content delivery
The disclosure problem

The Board has identified three main concerns about disclosures in the financial statements:

- **Not enough relevant information**
  - Can lead to inappropriate investing or lending decisions

- **Irrelevant information**
  - Can obscure relevant information and reduce understandability of financial statements

- **Ineffective communication**
  - Can reduce understandability of financial statements
Disclosure Initiative and related projects

Disclosure Initiative

**Completed projects**
- Amendments to IAS 1 to remove barriers to application of judgement
  - 2014

**Materiality implementation projects**
- Amendments to IAS 7 to improve disclosure of liabilities from financing activities
  - 2016
- Materiality Practice Statement
  - Sep 2017

**Research projects**
- Definition of material
  - ED Sep 2017
- Principles of Disclosure (this project)
  - DP 2017

**Related projects**
- Standards-level Review of Disclosures
- Conceptual Framework
- Primary Financial Statements

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7./8. September 2017 16. IFRS Kongress 2017
Objective of the Principles of Disclosure project

- Request to develop **disclosure principles** that apply across IFRS Standards
  - Help entities apply judgement and communicate effectively
  - Help users by improving disclosures
  - Help the Board improve disclosure requirements

**Ultimate goal:**

- New general disclosure standard or amendments to IAS 1 Presentation of Financial Statements
- Possibly with supporting guidance/education material
Outline of Discussion Paper

- Principles of effective communication in preparing financial statements
- Principles on where to disclose information
  - Roles of the primary financial statements and the notes
  - Location of information
- Principles to address specific disclosure concerns of users of financial statements
  - Use of performance measures
  - Disclosure of accounting policies
- Principles for improving disclosure objectives and requirements
  - Centralised disclosure objectives
  - Drafting disclosure requirements
Expected project timetable

30 March 2017
Discussion Paper published

2 October 2017
Comments due

2018
Board redeliberations

Feedback on the Discussion Paper will also inform
- Primary Financial Statements project
- Standards-level Review of Disclosures project
Questions & Answers