



HM Treasury

IASB Conceptual Framework for Financial Reporting

Current status and implications for public
sector financial reporting

Review of the *Conceptual Framework*

- **Project objectives:** to improve financial reporting by providing the IASB with a complete and updated set of concepts to use when it develops or revises IFRSs
- **Discussion paper:** was the first step towards revising the *Conceptual Framework* and was designed to obtain initial views and comments from parties with an interest in financial reporting
- The DP was issued in 2013 with areas of focus being:
 - Definitions of assets and liabilities
 - Recognition and derecognition of assets and liabilities
 - Measurement
 - Equity
 - Profit and loss and OCI
 - Presentation and disclosure

Discussion paper feedback

- Period of comment closed on 14 January 2014 with >220 comment letters received and 140 outreach meetings
- Much support was expressed in support of revising the *Conceptual Framework* with many respondents supporting building on the existing framework
- Respondents mainly agreed:
 - that definitions of assets and liabilities needed more clarification focusing on resource or obligation rather than flows that might result from them
 - support for the mixed measurement approach for assets and liabilities and the selection of measurement bases should depend on how an asset contributes to future cashflows and how a liability will be settled or fulfilled
 - consideration to be given to both the SoFP and SoCI when selecting measurement bases

Conceptual Framework Exposure Draft

- In May 2015 IASB published an exposure draft for public comment proposing a revised *Conceptual Framework*
- ED proposes a number of enhancements that are either not covered or not covered in enough detail including:
 - A new chapter on measurement that describes appropriate measurement bases (HC, CV – FV and VinU) and the factors to consider when selecting a measurement basis
 - Confirms the statement of profit or loss is the primary source of information about the entity's performance and adds guidance on when income and expenses could be reported outside the statement in OCI
 - Refinements to the elements definitions such as assets, liabilities, equity, income and expenses with more extensive guidance to support the definitions

Conceptual Framework Exposure Draft

- The ED clarifies some aspects of the existing *Conceptual Framework* and places more emphasis on the importance of providing information on management's stewardship of resources
- Reintroduction of an explicit reference to “prudence” with a clear explanation of what it means along with the role of substance over form in financial reporting
- Clarifies that a high level of measurement uncertainty can financial information less relevant

Early response to the Exposure Draft

- The ICAEW have welcomed the emphasis on “prudence” but cautious that the debate will be overshadowed by prudence and stewardship rather than a focus on fundamental issues of financial reporting
- FRC’s Accounting Council has so far welcomed the changes but would like further improvements to the proposals including:
 - Stewardship – it should either identify the provision of information or expand its discussion of the issue
 - Asymmetric prudence – the concept should be reflected in the Conceptual Framework itself (rather than Basis for Conclusions) to allow its consideration in the development of individual standards
 - Idea of “reliability” should be reinstated in the description of faithful representation – i.e. that the information can be depended on by users
 - Further clarification and changes in emphasis around terms used in the definitions of elements and inclusion of more items within the term “elements”

Implications for public sector financial reporting

- Potential areas of impact on public sector financial reporting:
 - Two categories of measurement bases to remain – HC & CV
 - More guidance on the approach to the selection of measurement bases and the way an asset or liability will contribute to future cash flows – depends on the nature of the business activities
 - Asset/liability definition – sufficient that a resource or obligation has the “**potential** to produce or transfer economic benefits” and not require an “expected” or “probable” inflow or outflow
 - Definition now shifts away from accounting for physical objects and towards accounting for different **rights** composing economic resources - uses the term “economic resource”
 - Obligations for existing and proposed liabilities – proposals that **two** conditions must be met for a present obligation to exist – entity has no practical ability to **avoid the transfer** & the obligation has arisen from past events
- Revised *Conceptual Framework* outlined in the Exposure Draft continues not to assist in resolving public sector specific issues of importance



Conceptual Framework – next steps

- Consultation period ends on 25th November (delayed from October deadline)
- IASB will consider feedback on its proposals as it develops the revised Conceptual Framework
- Aims to publish a revised version in 2016