

March
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IN THIS SECOND ISSUE: TENTATIVE DECISIONS OF THE IASB - OTHER IASB DISCUSSIONS

TENTATIVE DECISIONS OF THE IASB

The following sections summarise some of the tentative decisions reached at the February 2013 IASB meeting regarding the content of the forthcoming Discussion Paper.

Purpose of the Conceptual Framework

The IASB tentatively decided that the Conceptual Framework is not an IFRS and does not override the standards. Its purpose is to assist the IASB when preparing and amending standards and may assist preparers when accounting for transactions or events that are not covered by existing standards.

The IASB also tentatively decided on a new requirement that in the rare cases where departures from the Conceptual Framework occurred, they should be explained in the Basis for Conclusions on the relevant standard.

Elements of Financial Statements

The IASB considered developing additional guidance for identifying present obligations. One approach could be that an obligation must be unconditional. In this case, an entity does not have a present obligation as long as it can avoid the transfer of resources through its future actions (including ceasing operations).

Another approach would be to also include obligations where both of the following two conditions are met:

- the obligation accumulates over time or as the entity receives goods or services (e.g. vesting conditions in an employment contract) and that accumulation has started; and
- although there is a theoretical possibility that a final condition will not be met, that possibility is not realistic (in many cases it would probably not be realistic to cease operations).



A third approach is to consider an obligation to exist if, as a result of a past event, the entity has an obligation to transfer economic resources to another party on more onerous terms than would have been required in the absence of those past events. Under this approach a liability would, for example, exist when an entity at the balance sheet date agrees on a variable lease payment for a retail unit in a shopping mall of one percent of its monthly sales calculated by reference to sales in the first month of the next reporting period.

Although the IASB decided that all three approaches should be included in the Discussion Paper, and no decisions were made, the IASB's discussion indicated that many IASB members are currently in favour of the second approach if it can be developed further. If that approach is finally chosen, it could result in some contingent obligations being recognised earlier than today.

Recognition and Derecognition

The IASB tentatively agreed that the Discussion Paper should explain the differences between existence uncertainty (i.e. uncertainty about whether an asset or liability exists) and uncertainty of outcome (i.e. uncertainty about the ultimate inflow or outflow). When there is uncertainty about the existence of an asset or liability, the issues to be considered include whether to apply an explicit probability threshold for recognition and what the threshold should be.

The IASB did not favour a threshold for recognition in relation to uncertainty of outcome. Accordingly a lottery ticket could be recognised as an asset although it is unlikely that it will result in inflows of economic benefits.

An entity should derecognise an asset or a liability when it no longer meets the recognition criteria. However, when the entity has retained some components of an asset or liability, the IASB will determine, at a standards level, how to account for these circumstances.

Measurement

The IASB tentatively decided on three general principles that all need to be considered in selecting an appropriate measurement. The first principle states that the objective of measurement is to present faithfully the most relevant infor-

mation about the economic resources of the reporting entity, claims against the entity, and how efficiently the entity's management and governing board have discharged their responsibilities to use the entity's resources.

The second principle mentions that relevance of a particular measurement method also depends on how it affects the statement of comprehensive income. Many European constituents would probably be pleased to see that this second principle seems to recognise that measurement is not only about the impact on the balance sheet, but also on performance reporting.

Finally, the third principle says that the trade off between costs and benefits of a particular measurement should be considered in selecting an appropriate measurement.

The IASB also tentatively agreed that the most relevant measurement method for an asset or a liability will depend on how it will be realised or settled. However, the IASB will still have to discuss how to determine how assets will be realised. For these discussions it could be relevant to consider whether the entity's business model should play a role. EFRAG, the ANC and the FRC are working on a discussion paper on the role of the business model in financial reporting.

Reporting Entity

The IASB tentatively decided not to deal with the reporting entity issue until the Exposure Draft stage. Instead of including a section in the Discussion Paper, it would base the section in the Exposure Draft on its 2010 proposal and the comments received in response to this proposal.

OTHER IASB DISCUSSIONS

The boundaries between liabilities and equity is an issue many European constituents find important. At its February meeting, the IASB did not make any tentative decisions on this issue, but discussed a possible approach that retains the existing definition of a liability, and show wealth transfers between different classes of equity holders. Other comprehensive income (OCI) and recycling will be discussed at the IASB's March meeting.