

JOINT OUTREACH EVENT

IASB DISCUSSION PAPER

**A REVIEW OF THE CONCEPTUAL FRAMEWORK
FOR FINANCIAL REPORTING**

FRANKFURT

25 OCTOBER 2013

This feedback statement has been prepared for the convenience of European constituents by the EFRAG secretariat and has not been subject to review or discussion by the EFRAG Technical Expert Group. It has been reviewed by IASB staff and has been jointly approved for publication by representatives of EFRAG and the ASCG who attended the joint outreach event.

Joint Outreach Event

This feedback statement has been prepared for the convenience of European constituents to summarise a joint outreach event held by EFRAG and the Accounting Standards Committee of Germany (ASCG), in cooperation with the IASB, on 25 October 2013.

The joint outreach event was chaired by Liesel Knorr, ASCG President and member of EFRAG Technical Expert Group.

The joint outreach event was one of a series organised across Europe following the publication of the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. The purpose of the outreach event was to:

- stimulate the debate on the Conceptual Framework in Europe;
- obtain input from constituents, in particular from those that may not intend to submit a comment letter to the ASCG, EFRAG or the IASB, and to understand their main concerns and wishes;
- receive input for the ASCG's comment letter to EFRAG and the IASB; and
- learn whether the preliminary comments as set out in EFRAG's draft comment letter were shared by European constituents.

Holger Obst of the ASCG explained the proposals in the Discussion Paper and for each of the sections Rasmus Sommer of EFRAG summarised the positions as reflected in EFRAG's draft comment letter.

Martin Edelman (member of the IASB), Andreas Barckow (member of EFRAG Technical Expert Group and the ASCG IFRS Committee) and Kristy Robinson (IASB Technical Principal) provided their comments and answered participants' questions on the IASB's Discussion Paper. An open debate then took place with participants.

Comments received

Conceptual Framework timetable

A participant found it unclear what the impact of the revisions of the Conceptual Framework would be on individual standards, and in particular whether there would be stability in standards and a period of calm or if the result would be continuing improvement and change. The participant also thought that it only made sense to

It was not clear what the impact would be on individual standards

The revision only appeared to

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revise the Conceptual Framework if it is then used to fill gaps in the accounting literature. As it stood, the revision only appeared to assist the Board in filling gaps in current conceptual thinking.

The revision was important conceptual thinking that should have been done earlier

In answer to this, speakers thought that the situation was actually the other way round and that the Conceptual Framework revision was including thinking that should have been done earlier.

There could be conflicts with existing standards

A speaker said that the Discussion Paper was introducing for the first time principles on recycling, including limiting it. Depending on which of the options was chosen, this could end up conflicting with requirements in existing standards, for example IFRS 9 *Financial Instruments*.

Definitions of assets and liabilities

Removing the word 'probable' from the definitions was a fundamental change

Another participant did not think it was appropriate to say there were no fundamental revisions to the existing Conceptual Framework in the DP given the proposed removal of the word 'probable' from the definitions of assets and liabilities.

The new definitions may not help if there was a lack of clarity on the unit of account and on goodwill and immaterial assets

A participant was not sure how the new definitions helped in two particular areas. These were where there was inconsistency or a lack of clarity on the unit of account, and in relation to goodwill and intangible assets.

The expanded definitions would require substantially higher recognition thresholds

The participant appreciated the aim in separating definitions and recognition criteria, but thought that the implication of this expanded definition was that the recognition hurdles would have to be substantially increased.

The distinction between liabilities and equity instruments

The proposals were too detailed and it was also not clear what the impact would be

A participant thought the Discussion Paper was too detailed in its proposals on the distinction between liabilities and equity instruments and liabilities. The participant also wanted some clarification on what the impact of the proposals would be.

Measurement

A single measurement basis would not supply the most useful information in all circumstances

A participant supported the proposal included in the Discussion Paper that a single measurement basis would not produce the most useful information in all circumstances. Measurement at fair value would, according to the participant, in many cases not produce the most useful information for the Statement of Profit or Loss. However, refraining from using fair values could mean that

information included in the Statement of Financial Position would be incomplete. The participant also thought there needed to be a conceptual discussion on what fair value was.

Presentation and disclosure

Was the Discussion Paper saying some information in financial statements was more important than other information?

A participant queried the identification made in the Discussion Paper of a set of primary financial statements. Did this mean that some information in financial statements was more important than other information?

The primary statements were the starting point for analysis

An IASB representative noted that the primary financial statements were a convenient summary of the financial position and financial performance of an entity and often formed the starting point for analysis. Work on the Disclosure Framework project had identified that a disclosure framework needed to be in a far greater level of detail than the Conceptual Framework and was expected to be for a different purpose. There was also a link between disclosures and the concept of materiality. The core question of the boundary of the financial statements needed to be addressed – for example should it present all the information needed.

Standards needed to be industry specific in order to overcome the current problems with presentation and disclosure

The participant thought that standards had to be industry specific in order to overcome the current problems with presentation and disclosure.

It was important to distinguish distributable earnings

Profit or loss or Other Comprehensive Income

One participant thought it was important to present a subtotal for the realised profit or loss on the statement of profit or loss. This was important in order to determine distributable earnings.

It was very difficult to apply the concept of 'realised' in a group context

Speakers from the ASCG and IASB noted a number of problems with distinguishing between realised and non-realised profit or loss. One of the problems noted was that impairment losses and some provisions are unrealised and therefore would not be included in such a subtotal. It was also very difficult to apply the concept of 'realised' in a group context, especially as the legal requirements may be at an individual entity level.

The widespread practice of distributing a percentage of profits each year should not dictate the requirements of

One speaker also thought that although there was a widespread practice of distributing a percentage of profits each year, this should not dictate the requirements of IFRS.

IFRS

It was not enough to use the notes to the financial statements to explain performance

The participant appreciated that there were lots of problems with a notion of realised, but thought it would address a lot of concerns in Germany. It was not enough to use the notes to financial statements to explain performance. An example of this was how unhappy people were about fair value through other comprehensive income for financial instruments, where some income was only recognised in other comprehensive income and never recycled.