STAFF PAPER

8-9 April 2013

Accounting Standards Advisory Forum

Project	**Conceptual Framework**
Paper topic	Cover paper

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Purpose of this meeting

1. At this meeting, we would like to discuss with you initial drafting of the Conceptual Framework discussion paper (DP). This paper describes:
   (a) Background to the project;
   (b) Proposed approach to this meeting;
   (c) Status of the papers;
   (d) Areas we would like you to comment on; and
   (e) Next steps.

Background

2. In 2012, the IASB restarted its project on the Conceptual Framework. The project had been suspended in 2010 to allow the IASB to complete other projects on its agenda. At that point, the IASB had finalised chapters on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. In addition, the IASB had issued both a discussion paper and an exposure draft on the reporting entity chapter of the Conceptual Framework.

3. The Conceptual Framework project was originally a joint project with the FASB. It is now an IASB only project.

4. In developing the Conceptual Framework, the IASB will focus on:

   (a) Elements of the financial statements (including the boundary between liabilities and equity);

   (b) Recognition and derecognition;

   (c) Measurement;

   (d) Presentation and disclosure (including the question of what should be presented in other comprehensive income (OCI)); and

   (e) Reporting entity.

5. The IASB has decided to build on the existing Conceptual Framework – updating, improving and filling in gaps rather than fundamentally reconsidering all aspects of the Conceptual Framework.

6. Consequently, the IASB has decided not to revisit the chapters of the Conceptual Framework published in 2010 that deal with the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. In addition, the IASB has decided not to include a discussion of the reporting entity concept in the DP. Instead, the IASB proposes to redeliberate the reporting entity concepts (including comments received on the 2010 exposure draft) as it develops its exposure draft of the Conceptual Framework.

7. The IASB has discussed this project at Education sessions in November 2012, December 2012 and January 2013, and decision making meetings in February and March 2013.

Approach to this meeting

8. We have provided you with copies of the papers that the IASB discussed at the February and March 2013 meetings. Taken together, these papers comprise an initial draft of the Conceptual Framework DP. Appendix A provides a full listing of the papers provided.

9. We would like to discuss these papers with you at this meeting.

10. We wish to focus on those matters for which we think the IASB would benefit most from your input. Therefore, we have identified areas that we would particularly like your comments on. These areas are outlined in paragraph 17. In addition, we will give you the opportunity to comment on other areas of the papers.

11. The purpose of the DP is to start the debate on the concepts. In some places the IASB will express its preliminary views; in other areas the DP will simply discuss the alternatives considered by the IASB. The DP is not intended to be a draft of the exposure draft. It is designed to obtain initial views on some of the main issues. Consequently, the DP will not discuss all aspects of the Conceptual Framework.

12. At this meeting we would like to focus on improving the discussion in the DP rather than on any preliminary views reached by the IASB. Consequently, we would appreciate your comments on how we can improve the arguments in the DP and on any important areas or alternatives that you think are missing from the DP.

13. We plan to hold another ASAF meeting during the comment period for the DP and at that point we will seek your preliminary views on the matters included in the DP.

Status of the papers

14. The papers provided to you are the papers provided to the IASB in February and March 2013.

15. The papers represent a very early draft of the DP. In some areas the arguments are not fully developed and the discussion is more of an outline of what we would like to include. In addition, because different authors have worked on different sections, the papers do not yet have a consistent style, and some of the linkages between individual sections are not yet fully developed.

16. The questions in the papers were designed to obtain responses from the IASB that would form the basis of the preliminary views in the DP. The papers have not been updated to reflect the IASB’s responses to those questions or the discussions

at the February and March 2013 meetings. Appendix B provides a summary of the discussion at those meetings and any preliminary views reached.

Areas we would like you to comment on

17. We would particularly like your comments on the discussion in the paper of the following areas:

    (a) measurement (AP 3F *Measurement principles*, AP 3G *Initial and subsequent measurement* and AP 5D *Measurements other than cost or fair value*);

    (b) presentation in the statement(s) of profit and loss and comprehensive income (AP 5B *Presentation in the statement of comprehensive income – profit or loss and OCI*);

    (c) uncertainty, in the context of the definitions and recognition of assets and liabilities (AP 3B *Elements – Definition of elements* paragraph 14 and AP 3E *Recognition and derecognition* paragraph 24 – 34);

18. Finally, we will provide you with the opportunity to comment on the rest of the papers.

Next steps

19. We plan to discuss a revised draft of the discussion paper at the April 2013 IASB meeting. Following that meeting, we would hope to be in a position to finalise the drafting of the document with a view to publishing the DP in early July 2013.

Appendix A – List of papers provided

Discussed at February 2013 IASB meeting

AP	Section of DP	Title
3A	Purpose and status	Draft discussion paper: Purpose and status of the Conceptual Framework
3B	Elements	Draft discussion paper: Elements: Definition of elements
3C	Elements	Draft discussion paper: Elements - Guidance to support the definition of a liability
3D	Elements	Draft discussion paper: Elements – Equity liability boundary
3E	Elements	Draft discussion paper: Recognition and derecognition
3F	Measurement	Draft discussion paper: Measurement principles
3G	Measurement	Draft discussion paper: Initial and subsequent measurement

Discussed at March 2013 IASB meeting

AP	Section of DP	Title
5A	Presentation and disclosures	Draft discussion paper: Presentation and disclosures
5B	Presentation and disclosures	Draft discussion paper: Presentation in the statement of comprehensive income – Profit or loss and OCI
5C	Elements	Draft discussion paper: Additional guidance on liability definition – Economic compulsion, constructive obligations and contractual obligations
5D	Measurement	Draft discussion paper: Measurement – Measurements other than cost or fair value
5D(a)	Measurement	Draft discussion paper: Measurement – Measurements in existing and proposed IFRSs
5E	Elements	Draft discussion paper: Distinction between liabilities and equity instruments – Commentary on examples of written put options on own shares
5F	Elements	Draft discussion paper: Distinction between liabilities and equity instruments – Examples of written put

AP	Section of DP	Title
		options on own shares
5G	Elements	Draft discussion paper: Elements of the statement of comprehensive income
5H	Section of DP to be determined	Draft discussion paper: Capital maintenance

Appendix B – Summary of discussion

February 2013 meeting

Purpose of the Conceptual Framework (Agenda Paper 3A)

The IASB tentatively decided that the primary purpose of the Conceptual Framework is to assist the IASB in the development of future IFRSs and in its review of existing IFRSs. The Conceptual Framework may also assist preparers of financial statements in developing accounting policies for transactions or events that are not covered by existing IFRSs.

The Conceptual Framework is not an IFRS and does not override IFRSs. The IASB tentatively decided that this would continue to be the case.

In rare cases, the IASB may issue a new or revised IFRS that conflicts with some aspect of the Conceptual Framework if this is necessary to meet the overall objective of financial reporting. The IASB tentatively decided that it would need to describe and explain any such departure in the Basis for Conclusions on that IFRS.

Definitions of the elements of financial statements (Agenda papers 3B and 3C)

Definitions of an asset and a liability

The IASB discussed the definitions of an asset and a liability. The existing definitions are:

> An **asset** is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
>
> A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The IASB discussed the following possible changes to the definitions of an asset and a liability, which could be implemented by amending the definitions or adding guidance:

(a) emphasising that the asset is the resource and a liability is an obligation, rather than the economic benefits that may flow from the resource or obligation; and

(b) removing the term ‘expected’ from the definition. This will avoid implying that an item will not qualify as an asset or liability if the probability of an inflow or outflow does not reach some minimum threshold. In the IASB’s view, as long as an item is capable of producing an inflow or outflow of resources, it can meet the definition of an asset or liability, even if the probability of an inflow or outflow is very low (eg out of the money options). Removing the reference to ‘expected’ flows from the definition would also remove confusion over how that reference interacts with the reference to probability in the recognition criteria (see below for a discussion of recognition criteria).

The IASB also discussed whether to make the following further changes to the definitions:

(a) Remove the reference to ‘past events’, and instead emphasise that an asset is a present resource and a liability is a present obligation.

(b) Move the reference to ‘control’ from the definition of an asset to the recognition criteria (see the discussion of recognition criteria below).

Agenda Paper 3B suggested that the following revised definitions of an asset and a liability would reflect all the changes discussed above:

> An **asset** is a present economic resource.
>
> A **liability** is a present obligation to transfer an economic resource.

An economic resource is a scarce item that is capable of producing economic benefits to the party that controls the item.

Staff comment

As a result of concerns expressed at the February 2013 meeting, it is likely that the staff will propose retaining:

(a) The reference to past events in the asset and liability definitions. Agenda paper 3B had suggested relying solely on the term ‘present’ in the definitions, and referring to past events in the supporting guidance.

(b) The reference to control in the asset definition. Agenda papers 3B and 3E had suggested moving the reference to control from the definition of an asset into the recognition criteria.

Additional guidance on applying the definitions

The IASB also discussed additional guidance to support the definitions of an asset and a liability:

(a) Clarifying what is a resource: the IASB tentatively decided to clarify that:

(i) a resource can have different forms ie enforceable rights (eg trade receivables) and other economic resources (eg knowhow).

(ii) for a physical object, eg an item of property, plant and equipment, the economic resource is not the underlying object but a set of rights to obtain the economic benefits generated by the physical object.

Staff comment

It is likely that the staff will propose adding text to the DP to clarify that in many cases an entity will not need to account for each right separately.

(b) Executory contracts: the IASB discussed whether in principle, a net asset or net liability arises under a contract for which neither party has performed if the contract is enforceable (an executory contract). The IASB noted that these contracts are typically initially measured at zero.

With regard to additional guidance for a liability, the IASB discussed three approaches for identifying present obligations:

(a) Approach 1—apply a principle that obligations must be unconditional. For as long as an entity could avoid the transfer of resources through its future actions, it does not have a present obligation.

(b) Approach 2—modify the principle in Approach 1 so that an unconditional obligation is not the only type of liability. Applying Approach 2 means that a present obligation also exists if both the following conditions are met:

(i) an obligation accumulates over time or as the entity receives goods or services and those goods or services have already started to accumulate; and

(ii) although there is a theoretical possibility that a final condition will not be met, that possibility is not realistic.

(c) Approach 3—focus on past events instead of future events. Applying Approach 3 means that a present obligation will arise if, as a result of past events, 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.

No preliminary views were reached on these approaches and the IASB instructed the staff to include a description of all three approaches in the Discussion Paper.

Staff comment

Some IASB members expressed concerns about whether approach 2 was described correctly. The staff are working on improving the description of this approach.

Definitions of income and expense and other elements of the financial statements

The IASB discussed the existing definitions of income and expense and noted that significant changes were probably unnecessary. The IASB considered in March 2013 whether to provide additional definitions of elements to distinguish items presented in profit or loss from items presented in other comprehensive income. [See AP 5G from March 2013]

The IASB also noted that the Discussion Paper may discuss whether there is a need to define elements for statements of cash flows and of changes in equity, eg cash receipts, cash payments, contributions to equity, distributions of equity and transfers between classes of equity.

Recognition and derecognition (Agenda Paper 3E)

Recognition criteria

The existing Conceptual Framework includes the following recognition criteria:

> An item that meets the definition of an element should be recognised if:
>
> (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and
>
> (b) the item has a cost or value that can be measured reliably.

The IASB discussed the following possible improvements to the recognition criteria:

(a) Removing the term ‘probable’ from the recognition criteria:

- (i) The IASB tentatively agreed that the Discussion Paper should explain the difference between uncertainty about whether an asset or liability exists (sometimes called ‘existence uncertainty’ or ‘element uncertainty’) and uncertainty of outcome.
- (ii) Uncertainty over the existence of the asset or liability: in most cases, it is clear whether an asset or liability exists, but in some cases this may be uncertain. The IASB tentatively decided that the Discussion Paper will discuss the different approaches for such cases. The issues to be considered include whether to apply an explicit probability threshold in such cases, what the threshold should be (eg virtually certain, probable) and whether the threshold for an asset should be the same as for a liability.
- (iii) Uncertainty of outcome: the IASB tentatively decided that although an asset or a liability must be capable of generating inflows or outflows of economic benefits, there is no minimum probability threshold that those inflows or outflows must reach before a resource or an obligation qualifies as an asset or a liability.

(b) Providing additional guidance on when an entity controls an asset: the IASB tentatively decided that the Discussion Paper will include a definition of control that is based on IFRS 10 *Consolidated Financial Statements* and the IASB’s Exposure Draft (ED) *Revenue from Contracts with Customers*.

The IASB also tentatively decided that:

(a) in general, recognising items that meet the definition of assets or liabilities is likely to provide useful information for assessing:

  (i) the amount, timing and uncertainty of future cash flows; and

  (ii) how effectively and efficiently management is using the entity’s resources;

(b) however, there may be cases for which an entity should not recognise some asset or liability, either because recognising the element may not provide relevant information, or because the cost to provide the information is more than the benefits of providing the information.

Derecognition criteria

The existing Conceptual Framework does not define ‘derecognition’ and does not describe when derecognition should occur.

At this meeting, the IASB discussed whether the derecognition criteria should be the mirror image of the recognition criteria. The IASB tentatively decided that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. However, when the entity has retained some component of an asset or liability, the IASB will determine, at a standards level, how best to portray the change in those rights or obligations. Possible approaches include:

(a) enhanced disclosures;

(b) presenting any rights or obligations retained on different lines from the line used for the original rights or obligations, to highlight the difference in risk profiles; or

(c) continuing to recognise the original asset or liability, and treating the proceeds received or paid for the transfer as a loan received or granted.

Boundaries between liabilities and equity (Agenda Paper 3D)

The existing Conceptual Framework defines equity as the residual interest in the assets of the entity after deducting all its liabilities. The existing definition of a liability focuses on whether the entity has an obligation to transfer economic benefits. However, some Standards (eg IAS 32 *Financial Instruments: Presentation*) use complex exceptions to these basic definitions when distinguishing between liabilities and equity instruments. These exceptions are difficult to understand and apply.

The IASB discussed a possible approach that:

(a) retains the existing definition of a liability; and

(b) remeasures equity claims through a statement of changes in equity to show wealth transfers between different classes of equity holders.

The IASB directed the staff to develop this approach further for inclusion in the Discussion Paper. [See also AP 5E & 5F from March 2013 meeting]

Measurement

The existing Conceptual Framework lists four measurement bases and does not provide any guidance for when to use them.

General principles for measurement (Agenda Paper 3F)

At this meeting, the IASB discussed, and made tentative decisions on, the following principles of measurement. These principles are derived from the objective of financial reporting and the qualitative characteristics of useful financial information as described in Chapters 1 and 3 of the Conceptual Framework.

(a) Principle 1: the objective of measurement is to represent faithfully the most relevant information about the economic resources of the reporting entity, the claims against the entity, and how efficiently the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) Principle 2: although measurement generally starts with an item in the statement of financial position, the relevance of information provided by a particular measurement method also depends on how it affects the statement of comprehensive income and if applicable, the statements of cash flows and of equity and the notes to the financial statements.

(c) Principle 3: the cost of a particular measurement must be justified by the benefits of reporting that information to existing and potential investors, lenders, and other creditors.

The IASB noted that it will need to consider all three principles in selecting an appropriate measurement. The IASB also acknowledged that, at a practical level, many transactions are reflected in the income statement as they take place. Application of the three principles is therefore more relevant when those transactions create assets or liabilities that cross reporting dates. In applying the three principles, none has a higher priority than the others.

Some IASB members suggested adding an additional principle, namely, that the number of measurements used should be the minimum number necessary to provide relevant information.

Initial and subsequent measurement (Agenda Paper 3G)

The IASB tentatively decided that the most relevant measurement method will depend on:

(a) how the value of the asset will be realised. The value of an asset can be realised by, for example:

  (i) using it;

  (ii) selling it;

  (iii) holding it; or

  (iv) charging others for the right to use it.

(b) how the obligation will be fulfilled or settled. An obligation can be fulfilled or settled by:

  (i) settling the obligation according to its terms;

  (ii) performing services, or hiring others to perform services, to satisfy a claim with no stated amount;

(iii) settling a claim that has no stated or determinable amount by negotiation or in litigation; or

(iv) transferring the obligation to another party and being released by the creditor or other claimant.

The IASB discussed the different measurement bases for initial measurement and when they might be appropriate:

(a) cost (subject to a recoverability or adequacy test);

(b) fair value; and

(c) other bases if they will be used for subsequent measurement. The IASB discussed such bases in March 2013. [See AP 5D from March 2013 meeting]

March 2013 meeting

Presentation and disclosure (Agenda reference 5A)

The existing Conceptual Framework does not include any guidance on presentation and disclosure.

The IASB tentatively agreed to propose the following in the Discussion Paper:

(a) Financial statements comprise the primary financial statements and the notes to the financial statements. The primary financial statements are:

  (i) the statement of financial position;

  (ii) the statement(s) of profit or loss and other comprehensive income (or the statement(s) of income and expenses);

  (iii) the statement of changes in equity; and

  (iv) the statement of cash flows.

(b) The primary financial statements convey summarised information that communicates a financial picture of the entity. They are not complete in themselves and are supported by notes to the financial statements.

(c) No primary financial statement has primacy over the other primary statements. They should be looked at as a group.

(d) Presenting the primary statements in such a way that users can understand the linkage between the items in the individual statements makes the information more useful.

(e) In order to provide information that is useful to users, classification and aggregation into line items and sub-totals should be based on similar properties (for example, the nature, function or measurement basis of the item).

(f) Because offsetting aggregates dissimilar items, offsetting will generally not provide the most useful information for assessing an entity's prospects for future net cash inflows. However, the IASB may choose to require offsetting where such a presentation provides a more faithful representation of a particular position, transaction or other event.

(g) The purpose of the notes to the financial statements is to supplement and complement the primary financial statements and to provide any additional information to meet the objective of financial statements.

(h) Notes to the financial statements would focus on information about an entity's existing resources and obligations, and about changes in them. If an entity discloses information about the resources and obligations it may have in the future, it would disclose that information outside of financial statements, for example in management commentary.

Presentation in the statement of comprehensive income – profit or loss and OCI (Agenda reference 5B)

Currently, there is no principle in IFRSs that determines the presentation of income and expense in the statements(s) of profit or loss and other comprehensive income.

Financial performance

The IASB tentatively agreed that the discussion paper will not propose to equate financial performance with either 'comprehensive income' or 'profit or loss' or any other total or sub-total. Instead, the discussion paper will propose that all recognised items of income and expense provide information about an entity's financial performance.

A majority of IASB members expressed support for an approach to communicating financial performance that builds on the understanding that profit or loss is widely used as the main indicator of an entity's performance.

The approach discussed focuses on two questions:

(a) What distinguishes recognised items of income and expense that are presented in profit or loss from other recognised items of income and expense, ie those presented in OCI?

(b) What items (if any) presented in OCI in one period should be reclassified (recycled) into profit or loss in the same period or a later period, and why?

Principles for presentation in profit or loss or OCI

The IASB tentatively agreed that the discussion paper should propose a set of principles for determining whether a recognised item of income or expense should be presented in profit or loss or in OCI. The principles are:

(a) Principle 1: Items presented in profit or loss communicate the primary picture of an entity's financial performance for a reporting period.

(b) Principle 2: All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides a better depiction of financial performance.

(c) Principle 3: An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss if the reclassification results in relevant information about financial performance in that period.

Following on from these principles, the discussion paper will identify two groups of income and expense that would be eligible for presentation in OCI:

(a) Bridging items:

  (i) Bridging items arise when the IASB has determined that a recognised asset or liability should have two different measurement bases (one measurement basis, not based on cost, for use in the statement of financial position and one measurement basis for use in profit or loss). An example of a bridging item is the IASB's proposal that some debt instruments should be measured at fair value in the statement of financial position but measured at amortised cost for presentation in profit or loss. (see exposure draft *Classification and Measurement: Limited Amendments to IFRS 9*)

  (ii) In line with Principle 3, the amounts in OCI should be recycled into profit or loss in a manner (timing and amount) that is consistent with the measurement basis presented in profit or loss.

(b) Mismatched remeasurements:

(i) Mismatched remeasurements arise when an item of income or expense represents an economic phenomenon so incompletely that presenting that item of income or expense in profit or loss would provide information that has little or no relevance for assessing the entity's financial performance in that period. Therefore, presenting the item in OCI results in a better depiction of financial performance in that period. An example of a mismatched remeasurement would be the gain or loss arising on the remeasurement of a derivative in a qualifying cash flow hedging relationship.

(ii) Amounts in OCI relating to mismatched remeasurements should be recycled into profit or loss at the time when they can be presented together with income and expense arising from the related transaction.

The IASB also discussed an approach to communicating financial performance that makes no distinction between profit or loss and OCI. This approach builds on the view that identifying a single number within comprehensive income as the primary indicator of financial performance oversimplifies the performance of an entity. The IASB tentatively decided that the discussion paper should also describe this approach, although a majority of IASB members do not favour it.

The IASB instructed the staff that the next draft of the discussion paper should:

(a) explain why items presented in profit or loss communicate the primary picture of financial performance.

(b) consider whether there could be another group of OCI items that would not be recycled because recycling those items does not produce information that is relevant to the entity's financial performance during the period.

Additional guidance on constructive obligations and economic compulsion, to support the definition of the liability (Agenda reference 5C)

The IASB continued its discussion on the meaning of the term ‘obligation’. In particular, the IASB discussed the role of economic compulsion in identifying obligations, and the difference between economic compulsion and a constructive obligation. The IASB noted that problems relating to economic compulsion arise in two different contexts:

(a) distinguishing constructive obligations from economic compulsion; and

(b) evaluating the effect of economic compulsion on contractual options.

Distinguishing constructive obligations from economic compulsion

The IASB tentatively agreed to propose in the discussion paper adding guidance to the Conceptual Framework to help distinguish constructive obligations (that result in a liability) from economic compulsion (that does not result in a liability) . This guidance would state that, for an entity to have a constructive obligation:

(a) the entity must have a duty or responsibility to another party. It is not sufficient that an entity will be economically compelled to act in its own best interests or in the best interests of its shareholders;

(b) the other party must be one who would benefit from the entity fulfilling its duty or responsibility, or suffer loss or harm if the entity fails to fulfil its duty or responsibility; and

(c) as a result of the entity’s past actions, the other party can reasonably rely on the entity to discharge its duty or responsibility.

Evaluating the effect of economic compulsion on contractual options

Questions have arisen as to whether an entity should look beyond the terms of the contract and take into account other facts and circumstances that result in the entity being economically compelled to exercise its contractual rights in a particular way. The IASB noted that several IFRSs provide guidance on the factors that an entity should consider in assessing the substance of contractual rights and obligations. The IASB tentatively decided that the Discussion Paper should propose including in the Conceptual Framework the following general principles:

(a) an entity should report the substance of a contract;

(b) a group or series of contracts that achieves, or is designed to achieve, an overall commercial effect should be viewed as a whole.

(c) all terms – whether explicit or implicit – should be taken into consideration.

(d) terms that have no commercial substance should be disregarded.

(e) one situation in which a right (including an option) has no commercial substance is when it is clear from the inception of the contract that the holder will not have the practical ability to exercise the right.

(f) if, after disregarding options with no commercial substance, an option holder has only one remaining option, that option is in substance a requirement.

The Discussion Paper will also discuss whether economic compulsion should be considered in determining whether a claim against an entity is a liability or part of equity.

Measurement (Agenda references 5D and 5Da)

In February 2013, the IASB discussed different measurement bases and when they might be appropriate. At that meeting, the IASB focused on cost and fair value. At the March 2013 meeting, IASB discussed measurements other than cost or fair value.

The IASB tentatively agreed that the Conceptual Framework discussion paper should include a discussion of the factors that should be considered in constructing a cash-flow-based measure. The IASB suggested the following questions that would need to be addressed in constructing a cash-flow-based measure:

(a) Should cash-flow-based measures reflect the uncertainties in the amount and timing of cash flows, or a single possible amount?

(b) Should measures of liabilities reflect the possibility that an entity may not be able to settle its liabilities when they are due (the entity's own credit)?

(c) Should cash-flow-based measures be discounted and if so, at what rate or rates?

(d) Should cash-flow-based measures reflect the amount market participants would charge for bearing the risk embodied in uncertain cash flows?

(e) Should cash-flow-based measures reflect the effects of other factors such as illiquidity premiums or discounts if they are identifiable?

(f) Should the estimates and assumptions underlying cash-flow-based measures reflect the reporting entity's perspective or market participants' perspectives?

(g) Should all of the above estimates be updated at each reporting date or should some or all of them be locked in (ie not updated)?

The IASB noted that, when addressing these questions it would need to consider whether the benefits associated with a particular approach to measurement would be justified by the costs of providing that information.

Boundary between liabilities and equity (Agenda references 5E and 5F)

In February 2013, the IASB discussed a new approach for distinguishing liabilities from equity. At this meeting, the IASB discussed some examples to illustrate how that approach would apply to written put options on own shares.

Definition of income and expense (Agenda reference 5G)

The existing Conceptual Framework states that the elements of the statement(s) of profit or loss and comprehensive income are income and expense.

The IASB noted that there are few problems with the existing definitions of income and expense and agreed that the discussion paper should not propose amending these definitions (except for any drafting changes needed as a consequence of any amendments to the definitions of the other elements). In addition, the IASB decided tentatively that the discussion paper should not propose defining separate elements for:

(a) gains, revenue, losses and expenses;

(b) income (expenses) that should be reported in profit or loss and income (expenses) that should be reported in OCI.

Capital maintenance (Agenda reference 5H)

Concepts of capital maintenance are important as only income earned in excess of amounts needed to maintain capital may be regarded as profit. The Conceptual Framework describes two types of capital maintenance: financial capital maintenance and physical capital maintenance.

The discussion paper will propose not to change the existing descriptions and discussion on capital maintenance until such time any standards-level project on accounting for high inflation indicates a need for change.

Next steps

In April 2013, the IASB expects to discuss a revised draft of the discussion paper that will reflect comments received at the February and March 2013 meetings. The IASB will also discuss the following topics in April:

(a) Materiality; and

(b) The form of disclosure requirements.