AASB 29-30 May 2013
Agenda paper 11.11 (M131) - tabled

Australian Government
Australian Accounting Standards Board

IASB CONCEPTUAL FRAMEWORK: DRAFT DISCUSSION PAPER

Presentation to AASB – 30 May 2013

Jim Paul | Senior Project Manager
Australian Accounting Standards Board

Australian Government
Australian Accounting Standards Board

Introduction

Context of IFRS Staff Papers (Draft IASB DP)

- As draft components of the IASB DP on Conceptual Framework, the IFRS Staff Papers (for IASB's April 2013) reproduced for this AASB meeting:

  - incorporate tentative IASB decisions regarding DP preliminary views made in February and March 2013 IASB meetings; and
  - add IASB staff recommendations on other issues.

These IFRS Staff Papers are being discussed at this AASB meeting on the assumption that the IASB DP (targeted for issue in July 2013) will reflect the draft preliminary views in these papers.

- Those draft preliminary views are subject to change before the IASB issues its DP

Australian Government
Australian Accounting Standards Board

Conceptual Framework topics in draft IASB DP

- Purpose and status of the Conceptual Framework
- Elements of financial statements
- Recognition and derecognition
- Definition of equity / distinction between liabilities and equity
- <u>Measurement</u>
- Presentation and Disclosure
  - General
  - <u>Presentation in the statement of comprehensive income</u>
- Reporting entity (summary of 2010 ED and comments received)

This AASB meeting's topics for discussion are underlined.

Australian Government
Australian Accounting Standards Board

Presentation in the statement of comprehensive income

Australian Government
Australian Accounting Standards Board

Key Issue – should comprehensive income be bifurcated into 'profit or loss' and 'OCI'?

Three 'Approaches' to this Issue are discussed in AASB Agenda Paper 11.5.

The underlying key issue is a choice between two options:

1. **Bifurcate the statement into 'profit or loss' and 'other comprehensive income (OCI)' and <u>recycle</u> all or most items of OCI into profit or loss**

2. **Classify items (or groups of items) of income and expense usefully to aid resource allocation decisions, but <u>preclude recycling</u>**

Australian Government
Australian Accounting Standards Board

Should comprehensive income be bifurcated into 'profit or loss' and 'OCI'?

Three 'Approaches' are discussed in AASB Agenda Paper 11.5 (para. 26):

1) **Bifurcate comprehensive income into 'profit or loss' and 'OCI' and recycle all items of OCI into profit or loss**

2) **Bifurcate comprehensive income into 'profit or loss' and 'OCI' and recycle most items of OCI into profit or loss**

3) **Present a single statement of comprehensive income that does not include a sub-total for profit or loss**

Approaches (1) and (2) are similar; the main difference is between those two Approaches and Approach (3).

Australian Government
Australian Accounting Standards Board

Approaches (1) & (2): Commonly suggested 'attributes' for distinguishing profit or loss and OCI

-

[TABLE 1] An item of income or expense is presented in OCI if it:

A. is unrealised, i.e. all remeasurements (see also E. below)

B. is non-recurring

C. is non-operating

D. has insufficient measurement certainty to include in profit or loss

E. will be realised in the long term, i.e. some remeasurements

F. arises from events outside management's control

A preliminary view of the IASB is not expressed on these criteria.

Approach (1): proposed principles

•

Approach (1) – recycle all OCI items into profit or loss – is based on three proposed principles (AP 11.5, para. 28):

1) **Profit or loss communicates the primary picture of an entity's financial performance for the period;**

2) **All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information; and**

3) **An item previously presented in OCI should be recycled to profit or loss when that recycling results in relevant information about financial performance in that period.**

Approach (1) is the IASB's preferred approach.

Approach (1): two types of OCI

Bridging items Different measurement basis in statement of financial position and statement of comprehensive income • Difference based on relevance of information for assessing financial performance for the period	For example: • In IFRS 9 ED (2012), IASB proposed measuring particular debt instruments at fair value in the statement of financial position, and at amortised cost for recognition in profit or loss when that reflects the entity's business model for holding the debt instrument.
Mismatched remeasurements When an item of income or expense represents an economic phenomenon so incompletely that including it in profit or loss would have little relevance to financial performance for the period.	May arise when linked assets or liabilities: • are not recognised (*AASB staff did not find an example in the draft DP*); or • will be recognised in a future period (e.g. cash flow hedges)

Australian Government
Australian Accounting Standards Board

Q2(a) – proposed principles in Approach (1)

-

If the statement of comprehensive income is to be bifurcated into 'profit or loss' and 'OCI', do you agree with the draft DP's three proposed principles for Approach (1):

1) **Profit or loss communicates the primary picture of an entity's financial performance for the period;**

2) **All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information; and**

3) **An item previously presented in OCI should be recycled to profit or loss when that recycling results in relevant information about financial performance in that period.**

Q3(a), 3(b) & 4 – Approach (1)

-

If the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, do you support:

[Q3(a)]: the notion of ‘bridging items’? and, if so:

> **[Q3(b)]: using an entity’s business model as a factor in identifying ‘bridging items’?**

[Q4]: the notion of ‘mismatched remeasurements’?

Approach (2): 'Long-term remeasurement approach'

As mentioned earlier, Approach (2) is similar to Approach (1). It adopts only one of the three principles in Approach (1), as marked up below:

1) ~~Profit or loss communicates the primary picture of an entity's financial performance for the period~~

2) All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information

3) ~~An item previously presented in OCI should be recycled to profit or loss when that recycling results in relevant information about financial performance in that period~~

Approach (2): 'Long-term remeasurement approach'

Unlike Approach (1), Approach (2) would not:

a) view profit or loss items as having primacy over items of OCI

b) require all items of OCI to subsequently be recycled to profit or loss – recycling would occur when it adds sufficient relevant information

Under Approach (2), in determining whether a remeasurement is eligible for presentation in OCI, the IASB would consider three indicators (see next slide).

Australian Government
Australian Accounting Standards Board

Approach (2): 'Long-term remeasurement approach': indicators of OCI classification

a) Small, shorter time horizon changes in valuation inputs can have a significant impact on current period income or expense;

b) Because of the entity's business model, the effects of these changes in the current period are not relevant to its performance in that period; or

c) The effects of the remeasurement may fully reverse or significantly change over the long holding period.

Not all indicators would be necessary for OCI classification.

Australian Government
Australian Accounting Standards Board

Q2(b) – Approach (2)

- If the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, and you disagree with one or more of the draft DP’s three proposed principles for Approach (1) [below]:

1) Profit or loss communicates the primary picture of an entity’s financial performance for the period

2) All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information

3) An item previously presented in OCI should be recycled to profit or loss when that recycling results in relevant information about financial performance in that period

do you support instead Approach (2) – the ‘long-term remeasurement approach’ – for making that bifurcation?

Australian Government
Australian Accounting Standards Board

Q1(a), 1(b), 1(c) & 5 – 'profit or loss' and 'OCI'

- [Q1(a) & 5]: Should the statement of comprehensive income:

1. Be bifurcated into 'profit or loss' and 'OCI' and recycle all or most items of OCI into profit or loss; or

2. Classify items (or groups of items) of income and expense usefully to aid resource allocation decisions, but preclude recycling?

In answering these questions, please:

[Q1(b)]: Address whether adopting Option 2 above might risk reintroduction of 'extraordinary items' or similar notions?

[Q1(c)]: Indicate whether, if you support Option 2, that is because income and expense items should be classified according to different predictive power for determining the amount, timing and uncertainty of future cash flows.

Australian Government
Australian Accounting Standards Board

Measurement

Australian Government
Australian Accounting Standards Board

Q6 – Qualities of measurements

- Do you agree that the IASB's Conceptual Framework should include measurement concepts that (if applied) would result in measurements possessing the following qualities:

a) the amounts can meaningfully be added, subtracted and compared; and

b) their economic significance, individually and collectively, is capable of being understood?

Do you agree with the AASB staff's view that, to achieve this, it would be necessary to identify an ideal concept of capital (wealth) rather than presume a mixed measurement model?

Australian Government
Australian Accounting Standards Board

Q7 – Asset measurement 'methods' and cash flows

- Do you agree with the IASB's preliminary view that the most relevant subsequent measurement method (e.g. historical cost, or fair value) for an asset will depend on how the asset will contribute to future cash flows? For example, contribute to cash flows through:

a) use;

b) sale;

c) holding for collection according to contractual terms; or

d) charging for rights to use it?

- Business model(s)?

Q8 – Liability measurement ‘methods’ and settlement method

Do you agree with the IASB’s preliminary view that the most relevant subsequent measurement method for a liability will depend on how the liability will be settled? For example, it may be settled by:

a) paying contractual amounts;

b) transferring the obligation to a third party; or

c) performing services (or paying others to perform services).

- Business model(s)?

Australian Government
Australian Accounting Standards Board

Capital maintenance (economic income)

- A concept of capital maintenance is used to identify whether the entity has maintained its wealth for the period.

- i.e. how much ‘economic income’ the entity generated during the period.

To do this, the concept provides principles for determining:

1) the extent to which changes in assets and liabilities during the period changed the entity’s wealth (i.e. capital); and

2) whether changes in the general purchasing power of the monetary unit should be recognised in economic income for the period.

Q9 – Concepts of capital maintenance

- Do you agree with the IASB's preliminary views that:

a) the discussion of capital maintenance concepts in the existing Conceptual Framework should remain unchanged for the time being? and

b) any change to that discussion of capital maintenance concepts should only occur if and when any standards-level project on accounting for high inflation indicates a need for change?

- Importance of identifying a concept of change in wealth
- High inflation only?
- Standards issues as driver for concepts?

Future Discussions

Which issues relating to the topics discussed today do Board members want further background on at a future meeting?