

IASB Conceptual Framework Developments (Draft IASB Discussion Paper)

AASB Staff Issues Paper

Introduction

This AASB Staff Issues Paper is a primer for the Board's non-deliberative high-level 'educational' session at the forthcoming AASB meeting on the latest available Draft IASB Discussion Paper (DP) on Conceptual Framework, as reflected in IFRS Staff Papers issued in April 2013.

Extracts from the Draft IASB DP are provided in AASB Agenda Papers 11.5 – 11.9. Each of those papers is a copy of an IFRS Staff Paper and is referred to as a section of the Draft IASB DP.

This paper sets out the AASB staff's questions that AASB members will be asked to discuss regarding the above-mentioned extracts from the Draft IASB DP. Board members' tentative leanings on these questions would be welcome.

Background on the selected questions asked in this paper

The questions asked of AASB members in this paper focus on the key issues, as AASB staff see them, affecting the IASB's draft discussion of 'presentation' in the statement of comprehensive income and of measurement. Board members' views on them will inform staff in identifying key concerns to raise in an initial draft of the AASB's submission on the IASB DP and in discussions with AOSSG and ASAF members.

Some of the questions in this paper are essentially the same as questions asked of IASB members in the attached IFRS Staff Papers. Other questions in this paper raise issues not raised in the IFRS Staff Papers [e.g. Questions 1(b) and 6 below] and issues that are implicit in the IFRS Staff Papers [e.g. Question 1(c) below]. Some questions asked of IASB members in the attached IFRS Staff Papers are not raised in this paper because AASB staff think they do not relate to key issues. Any IASB questions on 'presentation' in the statement of comprehensive income and on measurement that are not included in this paper will be addressed in AASB Staff Papers for future Board meetings.

The questions have been crafted and ordered in a way to facilitate a structured discussion of the key issues.

Background on the structure and content of the table of questions below

The columns in the table of questions below include, in order: the question number, the related AASB Agenda Paper number, the paragraphs in that AASB Agenda Paper to which the question relates, and the question. Beneath some questions are AASB staff notes in italics. These are essentially background notes. Where the IASB's preliminary view is not evident from the question, the background notes indicate that view (in some places they also elaborate on the IASB's preliminary view). The background notes also explain linkages between some questions, and identify some aspects that AASB staff request Board members to consider in discussing the question. The background notes will be fleshed out, where

appropriate, at the Board meeting session in the AASB staff's PowerPoint-based verbal presentation on the Draft IASB DP. (Copies of the PowerPoint slides will be tabled at the Board meeting.)

This paper does not include AASB staff preliminary views, because the staff's intention is to keep this paper as neutral as possible. Instead, AASB staff preliminary views will be provided verbally in the staff presentation at the forthcoming Board meeting session.

Table of Questions

Statement of comprehensive income

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
1(a)	11.5	8 – 92 (especially 12 – 13)	<p>In concept, do you think the statement of comprehensive income should be bifurcated into 'profit or loss' and 'other comprehensive income (OCI)'? Please give your reasons.</p> <p><i>Notes: This question is not concerned with whether an entity's statement of comprehensive income is presented as one or two statements (for context, see paragraph 8 of AASB Agenda Paper 11.5). For example, profit or loss and OCI could be reported separately in either one combined statement or two separate statements.</i></p> <p><i>The IASB's preliminary view in the 'Presentation in the statement of comprehensive income' section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5) is that the statement of comprehensive income should be bifurcated into 'profit or loss' and 'OCI'. However, a minority of IASB members support an alternative view, described in paragraphs 87 – 92 of AASB Agenda Paper 11.5, that a single statement of comprehensive income without a sub-total for 'profit or loss' should be presented.</i></p> <p><i>For context regarding the overall ingredients of a statement of comprehensive income (which might affect AASB members' views regarding whether the statement of comprehensive income should be bifurcated into 'profit or loss' and 'OCI'), it is relevant to note that IASB staff propose leaving the definitions of income and expenses in the existing IASB Framework largely unchanged.</i></p> <p><i>Questions 1(b) – 5 below relate to some specific possible reasons for answers to this question.</i></p>
1(b)	11.5	8 – 92 (especially 12 – 13)	<p>In relation to Question 1(a), do you think removing 'profit or loss' might create undue risk of the re-introduction of notions like 'extraordinary items'? Should this particular risk be considered at a conceptual level or standards level?</p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
1(c)	11.5	8 – 92	<p>If, in concept, you think the statement of comprehensive income should not be bifurcated into ‘profit or loss’ and ‘OCI’, is this because you think comprehensive income should be classified into components with different ‘predictive power’ for determining the amount, timing and uncertainty of future cash flows?</p>
2(a)	11.5	27 – 41 (especially 28)	<p>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 distinguishing ‘profit or loss’ and ‘OCI’? Those principles are:</p> <ol style="list-style-type: none"> (1) Items of income and expense presented in profit or loss communicate the primary picture of an entity’s financial performance for the reporting 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 that has previously been presented in OCI should be reclassified (recycled) to profit or loss when the reclassification results in relevant information about financial performance in that period. <p>In answering this question, please indicate whether you think the ‘Presentation in the statement of comprehensive income’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5) provides sufficient guidance on the meaning of ‘financial performance’ and on when presenting an item in OCI would provide more relevant information than presenting it in profit or loss.</p> <p><i>Note: Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, disagreeing with one or more of these proposed principles could be a reason not to support bifurcating the statement of comprehensive income into ‘profit or loss’ and ‘OCI’ (in relation to Question 1(a) above). Alternatively, such disagreement could mean an AASB member would support such bifurcation, but disagrees with the proposed principles for making that bifurcation [see Question 2(b)].</i></p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
2(b)	11.5	77 – 86	<p>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 IASB DP’s above-mentioned three proposed principles for making that bifurcation, do you support instead the alternative ‘long-term remeasurement approach’ for making that bifurcation [as described in ‘Approach 2’ set out in paragraphs 77 – 86 of the ‘Presentation in the statement of comprehensive income’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5)]?</p> <p><i>Note: Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, disagreeing with one or more of the proposed principles referred to in Question 2(a) and with the alternative ‘long-term remeasurement approach’ for making that bifurcation could be reasons not to support making that bifurcation (in relation to Question 1(a) above).</i></p>
3(a)	11.5	43 – 57; 63 – 76	<p>If the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, do you support the notion of ‘bridging items’ as described in paragraphs 43 – 57 of the relevant section of the draft IASB DP?</p> <p><i>Notes: Paragraph 43 of the ‘Presentation in the statement of comprehensive income’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5) says: “A bridging item arises where the IASB determines that the statement(s) of profit or loss and other comprehensive income would communicate more relevant information about financial performance if profit or loss reflected a different measurement basis from that reflected in the statement of financial position.”</i></p> <p><i>Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, disagreeing with the notion of ‘bridging items’ could be a reason not to support making that bifurcation (in relation to Question 1(a) above).</i></p> <p><i>See also Question 3(b) below regarding ‘bridging items’.</i></p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
3(b)	11.5	12(d), Table 1, 36(b), 44, 53 – 54, 82(b)	<p>If the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, do you think that, in concept, an entity’s business model for generating and managing its cash flows should be a factor in classifying items of income or expense as components of ‘profit or loss’ and ‘OCI’? Specifically, do you have any comments on using an entity’s business model as a factor in identifying ‘bridging items’ (as referred to in Question 3(a) above)?</p> <p><i>Notes: Paragraph 36(b) of the ‘Presentation in the statement of comprehensive income’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5) notes, in effect, that some items of income and expense resulting from remeasurements of assets and liabilities would be bridging items (excluded from profit or loss when initially recognised) because those remeasurements are “not indicative of the expected method of realisation of that asset or liability, as indicated by current activities (ie business model)”. An example of a bridging item (in relation to particular debt instruments) is given in paragraphs 44 and 53 – 54 of the above-mentioned section of the draft IASB DP.</i></p> <p><i>Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, and that ‘bridging items’ would be recognised in OCI, disagreeing with the notion of ‘bridging items’ and/or with using an entity’s business model as a factor in identifying ‘bridging items’ could be reasons not to support making that bifurcation (in relation to Question 1(a) above).</i></p>
4	11.5	58 – 62; 63 – 76	<p>If the statement of comprehensive income is to be bifurcated into ‘profit or loss’ and ‘OCI’, do you support the notion of ‘mismatched remeasurements’ as described in paragraphs 58 – 62 of the relevant section of the draft IASB DP?</p> <p><i>Notes: Paragraph 58 of the ‘Presentation in the statement of comprehensive income’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5) says: “A mismatched remeasurement arises where an item of income or expense represents an economic phenomenon so incompletely that, in the opinion of the IASB, 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. A mismatched remeasurement may arise when assets or liabilities are remeasured, but linked assets or liabilities:</i></p> <p><i>(a) are not recognised; or</i></p> <p><i>(b) will be recognised in a future reporting period.” /...</i></p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
			<i>Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into 'profit or loss' and 'OCI', disagreeing with the notion of 'mismatched remeasurements' could be a reason not to support making that bifurcation (in relation to Question 1(a) above).</i>
5	11.5	13(c), 27(b), 28(c), 39 – 41, 57, 61 – 62, 80	<p>If the statement of comprehensive income is to be bifurcated into 'profit or loss' and 'OCI', do you support subsequently recycling items of OCI to profit or loss? If so, should all items of OCI be subsequently recycled? Please give your reasons.</p> <p><i>Notes: Although this question assumes (for the sake of discussion) that the statement of comprehensive income is to be bifurcated into 'profit or loss' and 'OCI', disagreeing with the notion of recycling could be a reason not to support making that bifurcation (in relation to Question 1(a) above).</i></p> <p><i>In relation to the 'long-term remeasurement approach' for making that bifurcation [as described in 'Approach 2' set out in paragraphs 77 – 86 of the 'Presentation in the statement of comprehensive income' section of the draft IASB DP (reproduced as AASB Agenda Paper 11.5)], paragraph 80 of AASB Agenda Paper 11.5 says: "This approach would not view items of income and expense presented in profit or loss as having primacy over other items of income and expense. Thus, there would be no expectation that all OCI items should recycle. Therefore an item that has previously been presented in OCI is reclassified (recycled) to profit or loss (but only if) the reclassification results in sufficient additional relevant information in that period."</i></p> <p><i>For those AASB members who think the statement of comprehensive income should not be bifurcated into 'profit or loss' and 'OCI', it is relevant to note that paragraph 89 of the above-mentioned section of the draft IASB DP says: "If the statement of comprehensive income were to present all recognised items of income and expense within the same total, reclassifications (recycling) ... would be unnecessary."</i></p>

Measurement

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
6	11.6	61 – 64	<p>Should the Conceptual Framework include measurement concepts that, if applied in practice, would result in measurements of amounts recognised in the financial statements possessing the following qualities:</p> <p>(a) the amounts can meaningfully be added, subtracted and compared; and</p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
			<p>(a) their economic significance, individually and collectively, is capable of being understood?</p> <p><i>Note: Arguably, to achieve this aspiration, it would be necessary to identify an ideal concept of capital (wealth), such as invested money capital, current cash equivalents or operating capability. A mixed measurement model arguably would not meet this conceptual ideal.</i></p>
7	11.6	61 – 94, 108 – 139	<p>Do you agree with the IASB preliminary view in the draft DP that the most relevant subsequent measurement method for an asset will depend on the way in which the asset will contribute to future cash flows (i.e. through use, sale, holding for collection according to contractual terms, or charging for rights to use it)?</p> <p><i>Notes: Paragraph 65 of the ‘Measurement’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.6) says: “... the relevance of a measure depends on its effects on the entity’s statement of financial position and its statement of comprehensive income (especially profit or loss). The effects that are most relevant for a specific type of asset depend on the way investors, creditors, and other lenders are likely to assess that type of asset’s contribution to future net inflows of cash or other items of economic value. Consequently, this [draft] discussion paper recommends that the measurement method used for a particular asset should be based on how it contributes to future cash flows.”</i></p> <p><i>AASB staff were initially inclined to depict the IASB’s above-mentioned preliminary view as being based on the entity’s business model (e.g. in AASB Agenda Paper 11.1 for this Board meeting, on page 3, last row, it is said that the notion of ‘business model’ is an important potential factor in deciding whether to remeasure assets and liabilities). However, because the IASB does not describe its preliminary views on measurement in those terms, AASB staff avoided using that description in these questions (to ensure the IASB’s preliminary views are not misrepresented). AASB staff note that the way in which an asset will contribute to future cash flows might arguably be determined at a more granular level than a business model, which the IFRS Staff Paper on ‘business model’ (reproduced as AASB Agenda Paper 11.9) says is not a choice and is different from management’s intentions, “which can relate to a single instrument” (see paragraph 4 of that paper). Nevertheless, it seems that the IASB’s above-mentioned preliminary view has some apparent similarities to a measurement approach based on the entity’s business model. These comments also apply to the IASB’s preliminary view on the relevant subsequent measurement method for a liability (see Question 8 below).</i></p>

Q	Paper	Para.	Question (normal font) / related AASB staff notes (italics)
8	11.6	95 – 107, 108 – 142	<p>Do you agree with the IASB preliminary view in the draft DP that the most relevant subsequent measurement method for a liability will depend on how the obligation in the liability will be settled (i.e. by paying contractual amounts, by transferring the obligation to a third party, by performing services or paying others to perform services)?</p> <p><i>Note: Paragraph 96 of the ‘Measurement’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.6) says: “In the same way as for assets, the nature of a liability and the way it will be settled are extremely important in identifying the appropriate measurement for that liability.”</i></p>
9	11.8	All	<p>Do you support the proposed approach to the concept of capital maintenance outlined in AASB Agenda Paper 11.8?</p> <p><i>Notes: Paragraphs 4 and 5 of the ‘Capital Maintenance’ section of the draft IASB DP (reproduced as AASB Agenda Paper 11.8) indicate that “... the IASB believes that the issues associated with capital maintenance are best dealt with at the same time as a possible standards level project on accounting for high inflation rather than as part of the Conceptual Framework project. [and] Hence, the IASB plans to include the existing descriptions and discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as any standards level project on accounting for high inflation indicates a need for change.”</i></p> <p><i>AASB staff think potential considerations for AASB members include whether:</i></p> <ul style="list-style-type: none"> <i>• issues associated with capital maintenance are not very relevant for entities in economies without high inflation;</i> <i>• existing circumstances should be a factor in choosing ideal concepts (or whether a Conceptual Framework should assume that differences between conceptual alternatives will always be material); and</i> <i>• identifying an ideal concept of capital maintenance is necessary for determining an entity’s ‘economic income’ (change in wealth) for the period (excluding changes in wealth resulting from transactions with owners acting in their capacity as owners).</i>