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Agenda

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- Importance of a Conceptual Framework
- Current FASB and IASB Conceptual Frameworks
- Conceptual Framework Project
 - History of Project
 - Active Phases
 - Key decisions reached to date
- Next Steps

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Importance of a Conceptual Framework

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- Individual concepts held by each member
 - Agreement would require intersection of personal frameworks
 - Compounded by changes in board membership
 - Greater risk of
 - Transitory concepts & resulting standards
 - Different conclusions on identical issues
 - Ad hoc decisions leading to inconsistent standards
- Converged Framework would facilitate converged and improved global standards

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Current FASB and IASB Frameworks

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- Basic structure of both frameworks is the same
 - Objective of financial reporting
 - Qualitative characteristics
 - Elements of financial statements
 - Recognition
 - Measurement
 - Display and disclosure
- There are some differences in the frameworks:
 - FASB: 'relevance' is a recognition criterion
 - Role of "probable" in recognition (IASB) and definition (FASB)

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FASB/IASB Frameworks

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- FASB has seven Statement of Financial Accounting Concepts
 - First six issued between 1978 and 1985
 - Last issued in 2000
 - Directed at financial reporting
 - Not authoritative
- IASB has Framework for the Preparation and Presentation of Financial Statements
 - Developed by IASC; Adopted by IASB in April 2001
 - Directed at financial statements
 - Authoritative via IAS 8

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Joint Conceptual Framework Project

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- Added to agenda in October 2004
- Objective:
 - To develop an improved and common conceptual framework that will provide a sound foundation for the development of accounting standards

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Project Plan

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- Eight phases:
 - Objective of financial reporting and qualitative characteristics of financial reporting information
 - Elements of financial statements and recognition
 - Measurement
 - Reporting entity
 - Presentation and disclosure, including reporting boundaries
 - Purpose and status in GAAP hierarchy
 - Applicability to the not-for-profit sector
 - Entire framework, remaining issues if any

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Project Plan

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- The project focus is on:
 - Omissions in the original frameworks
 - Concepts applicable to private sector business entities
- Not intended to be a fundamental rethink of the existing frameworks

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Objective of Financial Reporting and Qualitative Characteristics

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- First phase to start
- Discussion Paper in July 2006
- Exposure Draft in May 2008
- Final Chapters issued September 2010

Objective of Financial Reporting

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“Provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.”

Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans or other forms of credit

Objective of Financial Reporting

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- Primary users
 - Provide resources, but cannot demand information
 - Common information needs
- Assess the prospects for future net cash inflows
 - Buy, sell, hold
 - Efficient and effective use of resources

Qualitative Characteristics

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- Relevance
 - Predictive Value
 - Confirmatory Value
 - Materiality, entity-specific
- Faithful representation (replaces reliability)
 - Completeness
 - Neutrality
 - Free from error

Qualitative Characteristics

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- Enhancing Qualitative Characteristics
 - Comparability
 - Verifiability
 - Timeliness
 - Understandability
- Pervasive Constraint
 - Cost

Elements and Recognition

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- Also in process
- Key focus is definitions of assets, liabilities, income, and expense
- Known problems with current definitions
 - Asset: Resource controlled as result of past events from which expect future benefits
 - Liability: Present obligation arising from past events, settlement is expected to result in outflow of resources
 - Probable? Past event? Expect?
- Not anticipating major change to meaning

Elements and Recognition

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- How many elements?

FASB (10)		IASB (5)
Assets	Gains	Assets
Liabilities	Losses	Liabilities
Equity	Revenue	Equity
Investments by owners	Comprehensive Income	Income
Distributions to owners	Expenses	Expenses

- Recognition and derecognition criteria?

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Measurement

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- What is the most appropriate measurement attribute for a particular asset or liability?
- Started in 2007
- New approach in November 2008:
 - Standards-level decisions in multiple-measurement environment
 - Qualitative characteristics and cost constraint are measurement selection factors
 - Value realisation connects relevance to objective?
- May 2010: Develop a DP with a PV?

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Current staff thinking

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- What should measurement chapter accomplish?
- Implications of the objective of financial reporting
 - Statement of financial position (sfp) view
 - Income statement view
 - Holistic view (both sfp and income statement)
- Need more than relevance and faithful representation?
 - Implications of those views, fundamental QCs on historic cost and fair value
- DP expected Q1 2011

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Reporting Entity

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- No reporting entity concept to guide
 - Yet we report about it
- Objective of reporting entity phase:
 - To determine what constitutes a reporting entity for the purposes of financial reporting
- Published Discussion Paper in mid-2008
- Published Exposure Draft in March 2010
- Expect Final Chapter Q1 2011

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What is a Reporting Entity?

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- Circumscribed area of economic activity
 - Activities are being conducted, have been conducted, or will be conducted
 - Activities can be objectively distinguished
 - Provides information for users to make decisions
- Implications of description
 - Legal entity not necessary
 - A branch or segment of a legal entity could meet the description of a reporting entity

Reporting Entity

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- Consolidated financial statements are general purpose
- May also be a group of entities under common control
- Parent-only financial statements useful with consolidated financial statements

Questions or comments?

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