UNCTAD-ISAR Workshop on the Future Direction of the Corporate Reporting Model

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Workshop material:

Major trends and initiatives in corporate reporting models to address issues of sustainable development

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Overview

• The IASB’s Conceptual Framework project
• Objective of general purpose financial reporting
• Focus of financial statements
  – Assets and liabilities, and changes in them
• Limitations of financial statements
• Financial reporting and development
The IASB’s Conceptual Framework project

July 2013
Discussion Paper
published
6-month comment period
(ended 14 Jan 2014)

Q1 2015
Issue ED

2016
Revised Conceptual Framework
The IASB’s conceptual framework project

- Purpose of *Conceptual Framework* project
  - Not a fundamental rethink
  - Update, improve and fill in gaps
  - Focus on problems in the real world
Objective of general purpose financial reporting

to 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. …

*Conceptual Framework for Financial Reporting* paragraph OB2
Focus of financial statements

• Resources and claims
  – What resources does the entity control?
  – What are the claims on the entity?

• Changes in resources and claims
  – What resources did it acquire / create?
  – What resources did it conserve / sell / transfer?
  – What revenue did it earn?
  – What expenses did it incur?
  – How did the [reported] value of resources and claims change?
  – What cash did it pay and receive?

• What equity was contributed to the entity, or distributed by it?
### Asset and liability definitions (likely 2015 Exposure Draft)

<table>
<thead>
<tr>
<th>Asset [of an entity]</th>
<th>Liability [of an entity]</th>
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<tbody>
<tr>
<td>• A present economic resource controlled by the entity as a result of past events</td>
<td>• a present obligation of the entity to transfer an economic resource as a result of past events</td>
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<td>• An economic resource = a right that is capable of producing economic benefits</td>
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Examples of assets (1): often ‘recognised’ in financial statements

- Rights over physical objects:
  - Ownership of land, buildings or machines
  - Rights to use land, buildings or machines (leases, licenses)

- Financial assets:
  - Receivables
  - Equity investments

- Intellectual property:
  - Patents acquired for cash
Examples of assets (2) not often ‘recognised’

- Intellectual property:
  - Patents developed internally
  - Know how

- Contractual assets:
  - With customers
  - With suppliers
  - With employees

Some of the above are sometimes recognised if:

1. Acquired for cash, either separately or in a business combination
2. Cash has been prepaid for goods or services
Limitations of financial statements

- Some economic resources are not recognised (i.e., included in the statement of financial position)
- Some economic resources are measured on a basis that does not capture their current value.
- Financial statements focus on financial information
  - Financial information is important, but so are other things
- Management commentary provides an important complement to financial statements
Financial reporting and development

• Financial reporting:
  – can help to remove the frictions that impede the flow of capital.
  – should not try to encourage or discourage particular types of capital flows to particular destinations.
  – can help domestic capital formation.

• Digital reporting
Questions or comments?

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