Need to know
IASB issues Exposure Draft for a revised Conceptual Framework

This edition of IFRS in Focus outlines the proposed revisions to the *Conceptual Framework* set out in the recent Exposure Draft ("the ED") ED/2015/3 *Conceptual Framework for Financial Reporting* which was issued in May 2015 for public comment.

In a nutshell

- The IASB has published a comprehensive ED containing proposals for areas in which it considers a revision of the *Conceptual Framework* necessary.
- At the same time, the IASB published a separate ED that proposes to update references to the *Conceptual Framework* in existing IFRSs.
- The proposed revised *Conceptual Framework* contains the following eight chapters:
  – *Chapters 1 & 2 – The objective of general purpose financial reporting* and *Qualitative characteristics of useful financial information:* The IASB proposes to introduce guidance on stewardship, primary users, measurement uncertainty, substance over form and prudence;
  – *Chapter 3 – Financial statements and the reporting entity:* The IASB describes the role of financial statements and introduces proposals on definition, and the boundary of a 'reporting entity';
  – *Chapter 4 – The elements of financial statements:* The IASB proposes clearer definitions of assets and liabilities and more extensive guidance to support those definitions
  – *Chapter 5 – Recognition and derecognition:* The IASB proposes to clarify that only elements of financial statements can be recognised. To achieve recognition, the IASB sets out three criteria: relevance, faithful representation and the cost benefit restraint. The IASB further proposes providing clarification that derecognition requirements aim to represent faithfully the assets and liabilities retained after the derecognition event and the change in the entity's assets and liabilities as a result of that event;
  – *Chapter 6 – Measurement:* The IASB proposes to describe different measurement bases and factors to consider when selecting a measurement basis;
  – *Chapter 7 – Presentation and disclosure:* The IASB proposes high-level concepts that describe what information is included in financial statements and how that information should be presented and disclosed as well as guidance on reporting financial performance, including the use of other comprehensive income; and
  – *Chapter 8 – Concepts of capital and capital maintenance:* The IASB does not propose any changes to this material.
- Comments on the proposals are due by 26 October 2015.

For more information please see the following websites:

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Why are the revisions being proposed?

An update to the *Conceptual Framework* was deemed necessary by the IASB due to unclear, incomplete or outdated guidance.

To address these issues, the IASB published as a first step a Discussion Paper ("the DP") titled *A Review of the Conceptual Framework for Financial Reporting* (DP/2013/1). Based on the comments received on the DP, the IASB started its deliberations on a revised *Conceptual Framework* which have now resulted in the ED.

As some existing IFRSs contain references to, and quotes from, the existing and the previous version of the *Conceptual Framework,* the IASB has issued a separate Exposure Draft ("the separate ED") *Updating References to the Conceptual Framework* (ED/2014/4) at the same time. This separate ED proposes to update those references and quotes so they refer to the revised *Conceptual Framework*.

What are the revisions proposed by the Exposure Draft?

The ED sets out the revised *Conceptual Framework,* structured into an introduction and eight chapters. These sections of the *Conceptual Framework* are outlined below.

Introduction

This first section of the ED offers background information and describes the purpose of the *Conceptual Framework* and its status within the hierarchy of IASB pronouncements. The ED explains that the *Conceptual Framework'*s primary purpose is to assist the IASB in developing and revising IFRSs (even though it may be useful to parties other than the IASB) and that the *Conceptual Framework* does not override any specific IFRSs. Should the IASB decide to issue a new or revised pronouncement that is in conflict with the *Conceptual Framework*, the IASB will highlight the fact and explain the reasons for the departure.

Chapter 1 – The objective of general purpose financial reporting

The first two chapters of the *Conceptual* Framework were issued in 2010 as part of the IASB's joint project with the FASB. As they had only been published recently, these chapters were not fundamentally reconsidered in the IASB's current *Conceptual Framework* project. The responses to the DP had shown however that some aspects of this chapter needed reconsideration. The IASB has therefore decided that apart from editorial changes, guidance should be added on stewardship and primary users of financial statements.

According to the ED, users need information about how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's resources to assess management's stewardship about those resources. This information has also predictive value and can be used to estimate the entity's net future cash inflows. It is also useful for existing investors, leaders and other creditors who have the right to vote on or otherwise influence management's actions.

Chapter 2 – Qualitative characteristics of useful financial information

The only changes proposed (other than editorial changes) concern the introduction of measurement uncertainty in the relevance section and the reintroduction of the concepts of substance over form and prudence in the faithful representation section.

The ED mentions measurement uncertainty as a factor that can affect the relevance of financial information. Measurement uncertainty only occurs if measures for assets and liabilities cannot be observed directly and must instead be estimated. The ED clarifies that estimates do not in and of themselves undermine relevance but need to be properly described and disclosed. Therefore, high measurement uncertainty can influence relevance; however, the IASB clearly states that items with a high level of measurement uncertainty can still provide relevant information.

According to the ED, faithful representation provides information about the substance of an economic phenomenon instead of merely providing information about its legal form. In particular, when the legal form differs from the economic substance, information only about the legal form would not result in faithful representation.

Neutrality of financial statements is supported by the exercise of prudence. Prudence is defined by the ED as the exercise of caution when making judgements under conditions of uncertainty. Under the concept of prudence, assets and liabilities are neither overstated nor understated.

Chapter 3 – Financial statements and the reporting entity

This chapter discusses the role of financial statements and the entities that prepare financial statements (reporting entities). The IASB proposes to add this chapter to the *Conceptual Framework.*

The role of financial statements

The ED describes the role of financial statements, and states that financial statements are prepared from the perspective of the entity as a whole, rather than from the perspective of any particular group of investors, lenders or other creditors and their interests in the reporting entity. The ED also sets out the going concern assumption, which has been brought forward largely unchanged from the existing *Conceptual Framework.*

The reporting entity

The ED includes proposals on what a reporting entity is, and the boundary of a reporting entity. These topics are not discussed in the existing *Conceptual Framework.* The IASB developed these proposals taking into consideration comments received on the ED *Conceptual Framework for Financial Reporting – The Reporting Entity* which was issued in March 2010 and developed jointly with the FASB.

A reporting entity is described as an entity that chooses, or is required, to prepare general purpose financial statements. The ED clarifies that legal structure is not necessarily determinative of the existence of a reporting entity and a reporting entity can be a portion of an entity or can comprise two or more entities. Additional guidance is included on setting the boundary of a reporting entity that is not a legal entity.

The ED proposes that the boundary of a reporting entity that has one or more subsidiaries should be determined on the basis of control.

In the ED, the IASB proposes that the boundary of a reporting entity could be determined by:

a) direct control only, resulting in unconsolidated financial statements whereby the parent reports only on its own assets and liabilities (directly controlled); or

b) both direct and indirect control, resulting in consolidated financial statements whereby the reporting entity reports on both its own assets and liabilities (directly controlled) and those of its subsidiaries (indirectly controlled).

The ED indicates that, in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements. However, the IASB noted in their Basis for Conclusions that unconsolidated financial statements can provide useful information to users of financial statements, but are not a substitute for consolidated financial statements. In addition to presenting consolidated financial statements, a parent may choose, or be required, to prepare unconsolidated financial statements. In such circumstances, the unconsolidated financial statements should disclose how users can obtain the consolidated financial statements.

Observation

In the ED, the IASB acknowledges that *combined* financial statements that are prepared for two or more entities that do not have a parent-subsidiary relationship with each other can provide useful information to users of financial statements in some circumstances. The concept of combined financial statements is included in the ED; however, there is no discussion on when or how entities could prepare them. In their Basis for Conclusions, the IASB concludes that such a discussion would be best developed if the IASB undertakes a Standards-level project on this subject, rather than in the *Conceptual Framework.*

Chapter 4 – The elements of financial statements

Chapter 4 discusses the definitions of the elements of financial statements. The elements defined in the ED are assets, liabilities and equity (which provide information about the reporting entity's financial position); as well as income and expenses (which provide information about the reporting entity's financial performance). The ED provides clearer definitions of assets and liabilities and more extensive guidance to support those definitions.

Definitions of asset, liability and equity

	Existing definition	Proposed definition
Asset	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.	An asset is a present **economic resource** controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.
Liability	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.	A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
Equity	Equity is the residual interest in the assets of the entity after deducting all its liabilities.	[No change to the existing definition]

The role of probability in the definitions of assets and liabilities
The existing *Conceptual Framework's* definitions of assets and liabilities require an expectation of future economic benefits or a future outflow of resources. In addition, the existing recognition guidance on assets and liabilities requires that a flow of future economic benefits be "probable." These definitions are interpreted by some as meaning that an asset or liability does not exist or should not be recognised unless a minimum probability threshold is met. This interpretation raises the question of whether, for example, a purchased option that is not expected to be exercised qualifies as an asset or whether a written guarantee that is not expected to be called upon qualifies as a liability. Further, it is unclear whether the references to expectations and probable flows refer to uncertainty about the existence of an asset or liability (e.g., litigation over whether an obligation exists) or uncertainty about the outcome (e.g., uncertainty about whether an entity will collect a receivable or the potential exercise of an option).

The IASB's view on these issues is that the definitions of assets and liabilities should not require an "expected" or "probable" inflow or outflow. It should be sufficient that a resource or obligation has the "potential to produce [or to transfer] economic benefits", and this is reflected in the proposed definitions. For example, a stand-ready obligation to transfer resources if a specified, uncertain event outside the entity's control (e.g., an insurance contract obligation or guarantee obligation) occurs would qualify as a liability even though the obligation to transfer resources is conditional. However, outcome uncertainty may affect the measurement of an asset or liability.

The focus on rights
The existing asset definition uses the term "resource". The proposed definition uses the term "economic resource" which is defined as "a right that has the potential to produce economic benefits". The IASB prefers the term 'economic resource' because it helps to emphasise that the resource in question is not, for example, a physical object (such as an item of property, plant and equipment), but a right (or set of rights) over that physical object. This is a shift away from accounting for physical objects and towards accounting for different rights composing economic resources. However, the ED acknowledges that describing a set of rights as a physical object will often provide the most concise, clear and understandable information.

Rights that constitute economic resources may take various forms, they may be established by contract, legislation or similar means, they may arise from a constructive obligation of another party, or they may arise from legal ownership of a physical object such as the right to use the object, the right to sell the object and the right to pledge the object.

Observation
Under the existing definition, an asset can be a physical object. For example, if an entity leases a ship, the ship itself is considered in determining whether it should be recorded on the statement of financial position, and the whole ship is recorded on the statement of financial position.

Under the proposed definition, an asset could be an individual right in a bundle of rights, so in the above scenario, the entity would record the right to use the ship, rather than the ship itself.

Control of an economic resource
The ED proposes that the *Conceptual Framework's* definition of control be in line with its definition of an asset. Specifically, the IASB proposes the following definition:

> *An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it.*

Assessing control assists an entity in determining what economic resources it should account for. The ED provides an example of an entity that has a right to a proportionate share in a property without controlling the entire property. In such cases, the entity's asset is its share in the property (which it controls) not the property itself (which it does not).

Present obligation

Both the existing and proposed liability definitions require a present obligation as the result of past events. Under the existing *Conceptual Framework,* questions have arisen in practice because, in the situation where there has been some event in the past that could result in a transfer of economic resources but the entity still has some ability to avoid the transfer, it is unclear how limited the ability to avoid a future transfer must be for an entity to have a 'present obligation'. The ED proposes guidance on the term, and proposes that two conditions must be met for a present obligation to exist:

- the entity has no **practical ability** to avoid the transfer; and
- the obligation has arisen from past events, i.e. the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation.

> **Observation**
> The IASB is not proposing to change the definitions of liabilities and equity to address the problems that arise in classifying instruments with characteristics of both liabilities and equity. These problems are being explored in the IASB's Financial Instruments with the Characteristics of Equity research project.

Definitions of income and expenses
The IASB proposes to continue with the existing approach of defining income and expenses in terms of changes in assets and liabilities. No major problems have been identified with the definitions of income and expenses, and therefore, the only changes proposed are those necessary to make them consistent with the proposed definitions of assets and liabilities.

Chapter 5 – Recognition and derecognition

The recognition process
The IASB proposes to describe recognition as the process of capturing, for inclusion in the statement of financial position or statement(s) of financial performance, an item that meets the definition of an element. The item is depicted in words and by a monetary amount which is included in the relevant statement.

Only items that meet the definition of an asset, liability or equity are recognised in the statement of financial position and only items that meet the definition of income or expenses are to be recognised in the statement(s) of financial performance. According to the ED, recognised items are linked as follows:

	Total Assets
–	Total Liabilities
	Equity

	Income recognised in the income statement
–	Expenses recognised in the income statement
+	Contributions from holders of equity claims
–	Distributions to holders of equity claims
	Changes in equity during the period

Recognition criteria
The ED concedes that not all items are recognised. Instead, an entity recognises an asset or a liability if such recognition provides users of financial statements with:

- relevant information about the asset or the liability and about any income, expenses or changes in equity;
- a faithful representation of the asset or the liability and of any income, expenses or changes in equity; and
- information that results in benefits exceeding the cost of providing that information.

Observation
The existing recognition requirements (probability and reliable measurement) have caused problems in the past. Some Standards (e.g. IFRS 9) did not apply the probability criterion at all whilst others used the term 'probable' ambiguously. The reliable measurement criterion, on the other hand, was often associated with measurement uncertainty. The IASB therefore proposes to remove the probability criterion and to incorporate the reliable measurement criterion into the new relevance criterion.

The ED acknowledges that judgement is required when deciding whether to recognise an item and recognition requirements may need to vary between Standards. The role of the notes should also be considered when making decisions about recognition, especially if an item meeting the definition of an element is not recognised.

Relevance is influenced by uncertainties, especially if it is uncertain whether an asset or a liability exists, if inflows and outflows of economic benefits are improbable or if all relevant measurements available are highly uncertain. If there is no measure available, an item cannot be recognised.

Observation
The DP explicitly stated that recognising internally generated goodwill would be unnecessary to meet the objective of financial reporting as it would require a valuation of the entity as a whole. The ED does not reiterate that statement, although in the Basis for Conclusions to the ED, the IASB stated that it continues to believe that the statement is still valid.

For items such as know-how, customer and supplier relationships, the ED leaves open whether those are recognised as they are not contractual or other legal rights. It indicates that recognition of those items may not provide relevant information as there is uncertainty about the existence of an asset combined with the difficulty of separately identifying the asset.

Likewise, it can be difficult to decide whether a liability requires recognition, especially if there is uncertainty about the existence of an obligation in addition with a low probability of outflows of economic benefits and a high level of measurement uncertainty.

A low probability of a flow of economic benefits does not in and of itself preclude recognition, especially if the measurement of the asset or the liability reflects the low probability and is accompanied by explanatory disclosures.

When considering faithful representation it should be taken into account how the recognition affects equity, income and expenses. For example, not recognising an asset would result in an expense which could result in a misleading representation.

Derecognition
Derecognition is described as the removal of all or part of a previously recognised asset or liability from an entity's statement of financial position. It is not appropriate to derecognise when an entity has retained control of an economic resource. One indication for the entity retaining control is the retention of exposure to positive or negative variations in the amount of economic benefits produced by an economic resource.

Derecognising the assets or liabilities transferred and continuing to recognise the component of the asset or liability retained faithfully represents the assets and liabilities retained and the change in the entity's assets and liabilities.

If a modification to a contract adds rights and obligations that are distinct from those created by the original terms of the contract, it may be appropriate to treat the additions as new assets or liabilities. If they are not distinct, it may be appropriate to treat the new rights and obligations as part of the same unit of account as the existing rights and obligations.

Chapter 6 – Measurement
According to the ED, measurement would be described in the *Conceptual Framework* as the process of quantifying, in monetary terms, information about an entity's assets, liabilities, equity, income and expenses.

A measurement basis is an identified feature of an item being measured. The ED describes two categories of measurement bases: historical cost and current value.

Historical Cost
The focus of measures based on historical cost is the past transaction or event that created an asset, liability, income or expense. For an asset, the historical cost at initial recognition is the value of all the costs incurred in acquiring or constructing the asset, including both the consideration given and the transaction costs incurred. For a financial liability, this is the value of the consideration less transaction costs. This measure is subsequently not adjusted for changes in prices but only for changes such as consumption, impairment and fulfilment.

Income or expenses measured at historical cost can have predictive value, i.e. the entity can assess the impact of those changes on future cash flows or margins. They can also be confirmatory in comparisons with previous estimates of cash flows or margins.

In many cases information about historical cost is simpler and less expensive to provide. In addition, it can be understood and verified more easily.

However, especially when price changes are significant, information about the historical cost of assets and liabilities can sometimes be less relevant than information about current cost. Similar assets and liabilities acquired or incurred at different times can be reported in the financial statements at very different amounts.

Current value
Current values include fair value and value in use for assets and fulfilment value for liabilities.

The *Conceptual Framework* ED reiterates the fair value definition given in IFRS 13, i.e. fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The ED gives a list of factors that are included in fair value:

- estimates of future cash flows;
- the uncertainty inherent in cash flows (including own credit risk);
- the time value of money;
- the price for bearing the uncertainty; and
- other factors (e.g. liquidity).

Transaction costs are not added or deducted from the fair value measurement of an asset or a liability.

Measuring assets and liabilities at fair value has predictive value as the measure includes expectation of market participants about the amount, timing and uncertainty of the cash flows. It can also be confirmatory by providing feedback about previous estimates. Income and expenses measured at fair value can only be predictive and confirmatory when split (e.g. into the expected return, the return generated by the entity's use and the effect of changes in market participant's expectations).

If the business activities do not involve selling an asset or transferring a liability, measuring income and expenses at fair value may not provide useful information to users. However, comparability is increased for identical assets and liabilities as they are measured at the same amount regardless of when they are acquired or taken on.

In active markets, determining fair value is a simple and easy to understand process with the benefit of external verifiability. In cases where fair value is not available, it is determined by using a valuation technique. However, the ED points out some potential issues with valuation techniques:

- estimating can be costly and complex;

- inputs can be subjective; and

- identical assets and liabilities may be measured differently.

Whilst fair value is a market-specific value, value in use and fulfilment value are entity-specific values. The ED proposes to define value in use as the present value of the cash flows that an entity expects to derive from the continuing use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash flows that an entity expects to incur as it fulfils a liability. The definitions are derived from the definition of entity-specific current value in IAS 16 *Property, Plant and Equipment*.

Both measures are determined by using a cash flow-based measurement technique considering the same factors as fair value but using entity-specific instead of market-specific assumptions. Transaction costs are included in the valuation.

Value in use and fulfilment value have predictive value as they give information about the estimated cash inflows and outflows of the asset or liability. Both have confirmatory value by comparing previous values with actual outcomes. As value in use and fulfilment values are determined using cash-flow-based measurement techniques, the issues identified for fair value estimation apply to those values as well.

The ED concedes that value in use might not be suitable for individual assets that are used in combination with other assets. In these cases, value in use should be determined for a group of assets and allocated to individual assets. This, however, makes value in use impracticable for periodic measurements. It might be useful for occasional measurement such as determining the recoverable amount of historical cost in an impairment scenario.

Selecting a measurement basis

Measurement bases must be relevant and they must faithfully represent what they purport to represent. When selecting one of the above described measurement bases, it is important to consider the impact on information provided in the statement of financial position and in the statement(s) of financial performance. Factors to consider are the way an asset or a liability will contribute to future cash flows and the characteristics of an asset or a liability.

Observation

The way an asset or a liability will contribute to future cash flows depends on the nature of the business activities conducted by the entity. For example, a property can be held for sale or it can be held for continuous use.

Another factor to consider is the measurement uncertainty. Different measurement bases may have different levels of uncertainty. Whilst measurement uncertainty is not the same as outcome uncertainty, the latter can often have an effect on the former.

Estimates can lead to faithful representation if they are described as such and if the nature and limitations of the estimating process are explained and if no errors have been made in selecting and applying the process for developing an estimate.

When selecting a measurement basis for a certain item, it should also be considered which measurement basis is chosen for related items. Choosing different measurement bases for related items might lead to an accounting mismatch which in turn could lead to less useful information.

The selection of several measurement bases for a set of financial statements or the change of measurement bases between periods can make financial statements more difficult to understand. However, this may sometimes be appropriate if the result leads to more relevant information.

If in an exchange transaction, an entity acquires an asset in exchange for incurring a liability, the asset and the liability are normally measured initially at the same amount. When an entity acquires an asset, or incurs a liability, in exchange for transferring another asset or liability, the initial measure of the asset acquired (or the liability incurred) determines whether income or expenses arise on the transfer of the other asset or the liability. At initial recognition following an arm's length transaction, fair value and historical cost of an asset or a liability are similar at initial recognition, except that historical cost will include transaction costs. Nonetheless, it is necessary to describe what measurement basis is used at initial recognition.

If the transaction is with holders of equity claims acting in their capacity as holders of those claims, a contribution or distribution is recognised instead of a gain or loss.

The ED proposes to measure assets constructed by the entity on the same basis as the basis that would be used subsequently.

At times, it might be useful to disclose a different measurement basis for an item than the basis used for the statement of financial position. In other cases, it might be useful to have one measurement basis for assets and liabilities on the statement of financial position and a different measurement basis for income and expenses related to those assets and liabilities.

Measurement of equity
Equity is not measured. Instead, it equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities. However, individual classes or categories of equity may be measured directly.

Although equity is generally positive, it can also be negative, depending on which assets and liabilities are recognised and on how they are measured.

Chapter 7 – Presentation and disclosure
This chapter of the ED proposes high-level concepts that describe what information is included in financial statements and how that information should be presented and disclosed. The chapter also includes guidance on reporting financial performance, including the use of other comprehensive income (OCI). Presentation and disclosure are not addressed in the existing *Conceptual Framework.*

The objective and scope of financial statements
The ED states that the scope of financial statements is determined by their objective, which is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. This information is provided by recognition of items in the statements of financial position and performance that meet the definition of an element, and by information provided in other parts of the financial statements about recognised items, items that meet the definition of an element but that have not been recognised, cash flows, and contributions from, or distributions to, holders of equity claims.

The ED states that forward-looking information about likely or possible future transactions and events is included in financial statements only if it provides relevant information to assist users in understanding the entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period.

Presentation and disclosure as communication tools
Efficient and effective communication of information in financial statements improves its relevance, enhances its understandability and comparability, and contributes to a faithful representation of the assets, liabilities, equity, income and expenses.

The ED proposes that efficient and effective communication includes:

a) classifying information in a structured manner that reports similar items together and reports dissimilar items separately;

b) aggregating information so that it is not obscured by unnecessary detail; and

c) using presentation and disclosure objectives and principles instead of rules that could lead to purely mechanistic compliance.

> Observation
> The IASB is also working on the Disclosure Initiative, a collection of implementation and research projects aimed at improving disclosure in IFRS financial reporting. In its Basis for Conclusions the IASB states that, in the Disclosure Initiative, it will seek to provide additional specific guidance to support the application of the presentation and disclosure concepts proposed in the ED.

Information about financial performance
The ED describes the statement of profit or loss as the primary source of information about an entity's financial performance for the period, and requires that a total or subtotal for profit or loss be presented. In its Basis for Conclusions the IASB states that the decision was taken that it was not feasible or appropriate to attempt to define in the *Conceptual Framework* when an item of income or expense should be included in the statement of profit or loss or other comprehensive income (OCI). Instead, high level guidance on this topic and subsequent reclassification has been included.

Because the statement of profit or loss is the primary source of information about an entity's financial performance for the period, there is a rebuttable presumption in the ED that all income and all expenses will be included in that statement. This presumption can only be rebutted if:

a) the income or expenses relate to assets or liabilities measured at current values; and

b) excluding those income or expenses from the statement of profit or loss would enhance the relevance of the information in the statement of profit or loss for the period.

The presumption can only be rebutted by the IASB when setting Standards, not by preparers in applying the Standards.

One example when excluding income/expenses from profit or loss may enhance its relevance is when a current measurement basis is selected for an asset or liability for the balance sheet and a different measurement basis is selected for the related income and expenses in the statement of profit or loss ('dual measurement').

The ED also proposes that there is a presumption that if income and expenses are included in OCI in one period, they will be reclassified into the statement of profit or loss in some future period when including the income in the statement of profit or loss enhances the relevance of the information included in that statement in that period. The presumption could be rebutted, for example, if there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss. If there is no such basis, it may indicate that the income or expense should not be included in OCI in the first place.

Chapter 8 – Concepts of capital and capital maintenance
Chapter 8 discusses the concepts of capital and capital maintenance. The material in this chapter has been carried forward from Chapter 4 of the existing *Conceptual Framework* with minor changes for consistency of terminology. The IASB notes in their Basis for Conclusions that concepts relating to capital maintenance and current cost as a possible basis for measurement would be best dealt with in conjunction with a project on accounting for high inflation rather than as part of the *Conceptual Framework* project. No such work is currently planned.

When would the proposed revisions apply?

The *Conceptual Framework* does not have a stated effective date and any revised version would therefore be effective from its date of issuance.

The separate ED proposes a transition period of approximately 18 months with early application proposed to be permitted. It also proposes to apply the amendments retrospectively, except for the amendments to IFRS 3 *Business Combinations*.

The comment period on both EDs ends on 26 October 2015.

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