

Insights into IFRS

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How to search

Use the **search tool** to find key words or phrases

1.2.10 **INTRODUCTION**

1.2.10.10 The Conceptual Framework provides a broad discussion of the concepts that underlie the preparation and presentation of financial statements. It discusses the objective of general purpose financial reporting, the qualitative characteristics of useful financial information, the underlying assumption of financial statements, and, perhaps more important, it discusses the elements of financial statements, including assets, liabilities, equity, income and expenses, providing definitions and recognition criteria. The Conceptual Framework also discusses in broad terms the measurement of assets and liabilities and the concepts of capital and capital maintenance.

1.2.10.20 The IASB and the IFRS Interpretations Committee use the Conceptual Framework when developing new or revised IFRSs and interpretations or amending existing IFRSs. The Conceptual Framework also provides a point of reference for preparers of financial statements in the absence of specific guidance in IFRS on a particular subject (see 2.8.20). The purpose of this chapter is to highlight some of the Conceptual Framework's key principles. [CF Purpose and status, IAS 8.11]

1.2.16 **OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING**

1.2.16.10 The objective of general purpose financial reporting is 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. [CF.002]

1.2.17 **QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION**

1.2.17.10 The purpose of the qualitative characteristics of financial information outlined in the Conceptual Framework is to identify the types of information that are likely to be most useful to existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report. [CF.QC-1]

1.2.17.20 The qualitative characteristics are categorised as follows.

```
graph TD
    QC1[Qualitative characteristics (QC1)] --> QC17[Fundamental (QC17)]
    QC1 --> QC19[Enhancing (QC19)]
    QC17 --> Relevance[Relevance (QC6-QC7, BC3.11-BC3.13)]
    QC17 --> FaithfulRepresentation[Faithful representation (QC12, BC3.19)]
    QC19 --> Comparability[Comparability (QC20-QC25, BC3.32-BC3.33)]
    QC19 --> Timeliness[Timeliness (QC29, BC3.37-BC3.39)]
    Relevance --> PredictiveValue[Predictive value (QC8, BC3.14-BC3.15)]
    Relevance --> ConfirmatoryValue[Confirmatory value (QC9, BC3.14-BC3.15)]
    FaithfulRepresentation --> Completeness[Completeness (QC13)]
    FaithfulRepresentation --> Neutrality[Neutrality (QC14, BC3.27-BC3.29)]
    Comparability --> Verifiability[Verifiability (QC26-QC28, BC3.34-BC3.36)]
    Timeliness --> Understandability[Understandability (QC30-QC32, BC3.40-BC3.43)]
```

How to make notes

Highlight text, right click and select **Add note**

The screenshot shows a digital document viewer for 'Insights into IFRS 13th Edition 2016/17'. On the left is a dark sidebar with a 'Table of Contents' section containing a search filter and a list of document sections such as 'Cover', 'Title Page', 'Copyright Page', 'Overview of Contents', 'Rising to the Challenge', 'About this Publication', 'Abbreviations', 'Acknowledgements', and numbered sections from 1 to 8. The main content area on the right displays the 'RISING TO THE CHALLENGE' section, which includes several paragraphs of text and a quote from Mark Vaessen, Global IFRS Leader at KPMG International Standards Group. At the top of the document area, there is a toolbar with buttons for 'Copy', 'Highlight', 'Add Note', and 'Share'. The 'Add Note' button is highlighted with a red rectangular box.

How to highlight

Select text, right click and **Highlight**

The screenshot shows a PDF viewer interface. On the left is a sidebar with a 'Table of Contents' and a search bar. The main content area displays a document page titled '7.5.320 Securitisations'. The page content includes sections for 'Revolving transactions' and 'Continuing involvement'. A table with two columns, 'SCENARIOS' and 'EFFECTS', is highlighted. The 'Highlight' button in the top toolbar is circled in red.

7.5.350 **Revolving transactions**

7.5.350.10 If cash flows collected from the underlying financial assets are reinvested by the structured entity in new financial assets, other than cash or cash equivalents, under a revolving structure, then problems may be encountered in meeting the condition that all cash flows should be remitted to the eventual recipients without material delay. Further analysis of the terms and conditions governing this reinvestment is required to determine whether the conditions for a qualifying pass-through arrangement are met. [IAS 39 19]

7.5.350.20 In our experience, there are four general scenarios that may be encountered, each having an effect on the pass-through requirements.

| SCENARIOS | EFFECTS |
|--|---|
| The structured entity automatically reinvests the cash flows to buy additional receivables in accordance with predetermined contractual arrangements embedded in the structure. | In our view, the pass-through requirements are violated because the investments are not in cash or cash equivalents and therefore derecognition is precluded. |
| The structured entity remits the cash flows to the note holders without material delay, at which time the note holders may decide whether to reinvest the cash flows with the structured entity for the purpose of acquiring further financial assets. | In our view, this does not violate the pass-through requirements and the transaction should be considered further for derecognition. |
| The structured entity automatically reinvests the cash flows to buy additional financial assets, unless the note holders indicate at that stage that they do not want to reinvest in the structured entity – i.e. the cash flows are remitted to the note holders only if they decide not to reinvest. | In our view, the pass-through requirements are not violated because the structured entity is obliged to remit the cash flows to the note holders if it is so notified. The lack of a physical flow of cash from the structured entity to the note holder and back to the structured entity does not impact the derecognition analysis and the transaction should be considered further for derecognition. |
| The structured entity remits the cash flows to the note holders, but the note holders have an up-front contractual agreement that all cash flows will be reinvested immediately by the structured entity. | In our view, despite the physical flow of cash, the pass-through requirements are violated because the note holders are contractually obliged to reinvest the cash flows immediately in order for the structured entity to acquire additional financial assets. Therefore, derecognition is precluded. |

7.5.355 **Continuing involvement**

7.5.355.10 If the pass-through requirements are met and it is concluded that some but not substantially all of the risks and rewards of the financial assets are transferred to the note holders, then it is likely that the transferor will have retained control of the transferred financial assets. This is because in a typical structure the structured entity is consolidated and will maintain legal title to the financial assets whereas the note holders will have no rights to sell the underlying financial assets. Also, even if the structured entity is not consolidated, the transferor may retain control because the structured entity may not itself

How to bookmark

Click the top right + symbol

The screenshot shows a mobile application interface for 'Insights into IFRS 13th Edition 2016/17'. The main content area displays a document page titled '2.7.80 Translation of Foreign Currency Transactions'. The document text includes sections on 'Net investment in foreign operation' and 'EXAMPLE 7A - GAINS AND LOSSES ON MONETARY ITEMS THAT ARE PART OF NET INVESTMENT IN FOREIGN OPERATION - RECOGNITION (1)'. A table of contents is visible on the left side of the screen. A red box highlights a 'Add Bookmark' dialog box in the top right corner, which contains a list of 'Untitled' bookmark entries. A yellow circle highlights the '+' symbol in the top right corner of the document page.

How to review your work

Go back to your notes, highlights and bookmarks

The screenshot displays a PDF viewer interface. On the left, a sidebar titled 'Annotations' is highlighted with a red border. It contains a search bar and a list of three annotations: 334, 336, and 1464, each with a 'No Description' and a timestamp. A yellow circle highlights the '336' annotation. The main document area shows text from 'Insights into IFRS 13th Edition 2016/17', specifically '4.5.350 Step 3: Identify and Understand any Conditions'. The text discusses market conditions for exit events and includes a section on 'Cap in exercisability' with sub-sections 4.5.470.10 and 4.5.470.20. Below this is 'EXAMPLE 4 - SHARE-BASED PAYMENT WITH EXERCISE CAP' with sub-sections 4.5.470.30 and 4.5.470.40. Further down, 'STEP 4: RECOGNISE AND MEASURE SHARE-BASED PAYMENT' is shown, including 'Transaction with employee vs non-employee' and sub-section 4.5.480.10. The bottom of the interface shows a page number '1127' and a 'Show Displaced Annotations' button.

How to share

Create pdf by clicking the top-right **share** symbol

The screenshot shows the 'Insights into IFRS 13th Edition 2016/17' interface. The main content area displays '4.5.1890 Practical Application Issues' and 'EXAMPLE 41 – REVERSE ACQUISITION INTO SHELL COMPANY'. A 'Create & Share PDF' dialog box is open in the top right corner, highlighted with a red border. The dialog box has a 'Close' button in the top right, a 'Next' button at the bottom, and a 'Select Content' section with three radio buttons: 'Selected Text', 'Current Page View' (which is selected), and 'Current Section'. There is also a checked checkbox for 'Include Annotations'.

of the accounting acquirer's (the non-operating listed entity's) identifiable net assets received. The Committee noted that the payment does not because it is not separable (see 3.3.40.10) and that the difference should be treated in its entirety as a payment for a stock exchange listing and ex

EXAMPLE 41 – REVERSE ACQUISITION INTO SHELL COMPANY

4.5.2360.40 Company P is an unlisted operating company. Company N is a non-operating listed company that does not 2 6 20) – i.e. N is a shell company. To obtain a stock exchange listing, P arranges for N to acquire all of P's shares by issuing it

4.5.2360.45 The following facts are also relevant for this example.

- The fair value and book value of N's identifiable net assets (cash only) is 95.
- At the date of acquisition, the fair value of one share in P is 12.
- P has 90 ordinary shares.
- After the transaction, the shareholders of P own 90% of the combined listed company N, with the remaining 10% owned by the initial shareholders of N.

Before

```
graph TD
    subgraph Before
        direction TB
        C1[Company N Shareholders] -- 100% --> N1[Company N]
        C2[Company P Shareholders] -- 100% --> P1[Company P]
    end
```

After

```
graph TD
    subgraph After
        direction TB
        C3[Company N Shareholders] -- 10% --> N2[Company N]
        C4[Company P Shareholders] -- 90% --> N2
        N2 --> P2[Company P]
    end
```

4.5.2360.50 In this example, the substance of the transaction is that P has acquired N for its listing status. As noted in 4.5.2360.20, because N is not a business the transaction is outside the scope of IFRS 3. The transaction is instead accounted for as a share-based payment transaction from the perspective of P.

4.5.2360.50 As such, P is deemed to have issued its own shares to acquire control of N. After the transaction, P's shareholders have a 90% interest in the

How to review your history

Retrace your steps

The screenshot shows a mobile application interface. On the left, a 'History' sidebar is visible, listing various document sections with page numbers. A red box highlights this sidebar. A yellow circle highlights a refresh icon in the sidebar. The main content area on the right displays a document page titled 'Insights into IFRS 13th Edition 2016/17' with a sub-header '5.13.10 Common Control Transactions'. The document contains text paragraphs and a diagram. The diagram, titled 'EXAMPLE 9 – DEMERGER OUTSIDE SCOPE OF IFRIC 17', shows a corporate structure where Company P is the ultimate owner, controlling Company IP1, Company IP2, Company S4, and Company S5. Company IP1 controls Company S1, and Company IP2 controls Company S2 and Company S3. A dashed arrow indicates a transfer of shares from Company IP2 to Company S3.

How to customise your view

Adjust **font type**, **text size** and **line spacing** etc to suit

The image shows a digital document viewer displaying the cover of 'Insights into IFRS 13th Edition 2016/17'. The cover features the KPMG logo, the Sweet & Maxwell logo, and the title 'INSIGHTS INTO IFRS' in large teal letters. Below the title, it reads 'KPMG's practical guide to International Financial Reporting Standards' and '13th Edition 2016/17'. On the left, there is a 'Table of Contents' sidebar with a search bar and a list of chapters. An 'Options' menu is overlaid on the right side of the page, enclosed in a red rectangular box. The 'Options' menu includes settings for 'Sign Out', 'Language' (English - UK), 'Layout' (Pages Match the Book), 'Font' (Arial), 'Text Size' (with minus and plus buttons), 'Line Spacing' (with three icons representing different spacing options), 'Colour Scheme' (with three icons representing different color schemes), and 'Colour Labels'. A yellow circle highlights the top right corner of the document viewer, containing a question mark icon, a refresh icon, and a settings icon.



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