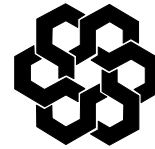




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB). These notes are based on the staff papers prepared for the IASB and FASB. Paragraph numbers correspond to paragraph numbers used in the joint IASB-FASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 23 October 2006, Norwalk
Project: Conceptual Framework
Subject: Procedures for Finalizing the Framework
(Agenda Paper 2 – also issued as observer note for IASB meeting Agenda Paper 9A)

OVERVIEW

1. At its September meeting, the IASB asked the staff to address, at the October joint meeting, the process for finalizing the conceptual framework. The primary issue for consideration is whether each of the Boards should issue the new common conceptual framework as a single document after completion of all phases or issue each chapter as the Boards complete their final round of redeliberations and balloting for the chapter. Issues that the Boards must consider include:
 - a. the purpose of the framework.
 - b. potential inconsistencies arising from the issuance of a new chapter of the framework (inconsistencies between new and old parts of the

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framework or inconsistencies between existing standards and the new framework).

- c. the effect of Board member turnover on the issuance of the framework.
2. The staff thinks these issues concerning the finalization of the conceptual framework relate to the standing of the framework within the hierarchy of authoritative guidance. Thus, the finalization may need to be readdressed when the Boards discuss the placement of the framework within the IASB and FASB hierarchies at the April joint meeting.
 3. We think each Board can consider and reach decisions now on the finalization issue in the context of their existing hierarchies. Those hierarchies make parts of the IASB framework mandatory guidance in the absence of particular standards¹ and the FASB framework non-mandatory guidance². Since the Boards will address finalization within the context of their current hierarchies, if one or both Boards change their hierarchy at a later date, we may need to readdress the decisions reached on the finalization process.

¹ IAS No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 11 states:

Management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements and guidance in Standards and Interpretations dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

Based on this definition, constituents may interpret definitions, recognition criteria, and measurement concepts for specific elements as mandatory and other parts of the framework as recommended.

² The preface to FASB *Statements of Financial Accounting Concepts* states:

The concepts ...may provide some guidance in analyzing new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements. Statements of Financial Accounting Concepts do not establish standards prescribing accounting procedures or disclosure practices for particular items or events.

ANALYSIS OF ISSUES

Uses of the Conceptual Framework

4. In order to decide whether and how the conceptual framework chapters should be finalized, the Boards must consider the uses of the framework and its primary users. The framework may be used by:
 - a. the Boards in standard setting,
 - b. constituents in the absence of standards-level authoritative guidance,
or
 - c. both.

The goal should be to finalize the chapters of the framework in a way that maximizes the benefit to the primary users.

Boards' Use of the Framework

5. As the Boards currently use their conceptual frameworks for standard-setting purposes, it may be more beneficial to issue the framework by chapter to ensure that the most current conceptual thinking of the Boards is put in place and available for use in the Boards' current standard-setting efforts. However, if the entire conceptual framework is issued at the end of the project, the Boards must decide (under their own operating rules) whether the current conceptual frameworks must be followed during standards-setting or if it is permissible to look ahead to the new but unissued framework in setting standards. That is, do operating procedures of the Boards require following the existing framework in standard-setting?
6. The FASB *Rules of Procedure* are reasonably explicit. It states that "Statements of Financial Accounting Concepts are intended to establish the objectives and

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concepts that the FASB will use in developing standards of financial accounting and reporting.”

7. IASB literature concerning Board use of the framework is more implicit. The Due Process Handbook for the IASB, paragraph 18(a), addresses the formal due process for projects and states that “the staff are asked to identify and review all the issues associated with the topic and to consider the application of the *Framework* to the issues.” [Sentence omitted from Observer Notes].
8. The preface to the IASB International Financial Reporting Standards also makes reference to the use of the framework. Paragraph 8 states:

IFRSs are based on the *Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Framework* is to facilitate the consistent and logical formulation of IFRSs. The *Framework* also provides a basis for the use of judgement in resolving accounting issues.

The Boards must determine whether issuing the entire framework at the end of the project would require them to continue using their existing frameworks instead of the improved framework until the project is complete.

Constituents’ Use of the Framework

3. If one or both Boards determine that the improved conceptual framework should be used by constituents as authoritative guidance, the staff thinks that, as part of its finalization process, the Boards must determine if the application of the framework or particular chapter (or parts of a chapter) will be *mandatory* in the absence of standards-level guidance. It is likely that several chapters of the new framework will contain conceptual guidance for situations that are not currently addressed in existing standards. For example, Phase E will test the boundaries of financial reporting and may suggest that, in concept, those boundaries be expanded to include prospective information about future cash flows, budgets, forecasts of capital expenditures, information about an entity’s service efforts, and accomplishments. [Sentence omitted from Observer Notes].

4. [Paragraph omitted from Observer Notes].
5. [Paragraph omitted from Observer Notes].
6. The existing FASB hierarchy does not mandate constituent use of the framework and, thus, this issue is not a major concern for FASB constituents. However, IASB constituents may interpret the placement of the IASB framework within its current hierarchy to mean that they must use specific parts of the framework as authoritative and mandatory guidance in the absence of standards-level guidance. Based on the guidance in IAS 8, constituents may be unclear as to how to treat parts of the framework that are not specifically mentioned in IAS 8. [Sentences omitted from Observer Notes].

Potential Inconsistencies

7. One concern about finalizing chapters of the improved framework as they are completed is the potential for inconsistencies between a new chapter and other parts of the existing framework. For example, if the qualitative characteristics chapter is finalized, references to *reliability* in the existing frameworks will be outdated because *faithful representation* will replace *reliability* as a qualitative characteristic in the new framework chapter. That concern is most acute if the concepts are mandatory. However, even if not mandatory, the finalization of a new chapter may require considerable “housekeeping” work. To avoid such inconsistencies, the staff would need to identify other parts of the framework that require consequential amendment whenever a new chapter is issued. Those amendments would also need to be subjected to due process at the exposure draft stage. [Sentence omitted from Observer Notes].

Length of Board Appointments

8. The conceptual framework project will take several years to complete. As such, a Board decision not to finalize parts of the framework until the Boards are ready to issue the new framework in its entirety may complicate the approval process

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- required. Many Board members who voted on decisions regarding the individual chapters of the new framework will no longer be Board members when the project is completed. Thus, if all chapters of the new framework are held in abeyance—not issued until a complete framework is ready—many of the Board members who would vote on issuing the new framework would not have made the decisions during the deliberations and redeliberations of the early chapters. Thus, differing views of future Board members could delay finalization of the conceptual framework if the Board decides the entire framework must be finalized upon its completion.
9. Conversely, if the Boards finalize chapters separately, deliberations of subsequent chapters may reveal modifications needed of already-issued chapters. For example, when considering the application of the framework to not-for-profit organizations, the Boards may find a need to refine or improve on a previously stated concept. As such, it may be necessary to amend aspects of previous chapters as new phases of the framework are deliberated. That, however, is not necessarily detrimental if we look at the framework as a “living document” that may require some ongoing fine-tuning and improvement.

STAFF RECOMMENDATION

10. [Paragraph omitted from Observer Notes].
11. The staff recommends the Boards agree on finalization procedures at this meeting and, if necessary, revisit the finalization decision when they each consider the standing of the new jointly developed common framework within the IASB and FASB hierarchies. The staff intends to bring a separate memo on this issue at the April joint meeting.

QUESTION FOR THE BOARDS

Within the context of each Board’s existing hierarchy, do the Boards wish to finalize the new framework by chapter or only after the entire project is complete?