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Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: **February 2007, London**

Project: **Conceptual Framework**
 (Agenda Paper 4)

INTRODUCTION

The Conceptual Framework Project

1. The Conceptual Framework project is a joint project between the International Accounting Standards Board and Financial Accounting Standards Board (the Boards) to develop an improved and common conceptual framework. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that are principles-based, internally consistent, internationally converged, and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions.

Structure of the Papers

2. This paper provides an overview of the current status of the Conceptual Framework project.
3. Agenda Paper 4A is as staff consultation draft on the working definition of an asset. We have developed that paper further since the SAC last discussed this topic in June 2006. That paper contains several questions on which we seek counsel.

OVERVIEW OF THE PROJECT PLAN AND STATUS

Project Objective

4. The objective of this joint project of the Boards is to develop a common conceptual framework that is both complete and internally consistent. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that are principles-based, internally consistent, internationally converged, and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions. That framework, which will deal with a wide range of issues, will build on the existing IASB and FASB frameworks and consider developments since they issued their original frameworks.

Conduct and status

5. The Boards are conducting the joint project in eight phases, as follows:

<u>Project Phases, Status, and Timing</u>			Next Document	
Phase	Topic	Current Status	2006	2007 and beyond
A	Objectives and qualitative characteristics	DP Comment Analysis to Boards – February 2007	DP issued July 6, 2006	ED-Q3 2007 (estimated)
B	Elements and recognition	Board deliberations		DP Q4 2007 (estimated)
C	Measurement	Planning and staff research		Roundtables – Q1 2007

D	Reporting entity	Board deliberations	DP-Q2 2007 (estimated)
E	Presentation and disclosure, including financial reporting boundaries	Research by others underway	TBD
F	Framework purpose and status in GAAP hierarchy	Planning and staff research	TBD
G	Applicability to the not-for-profit sector	–	TBD
H	Remaining issues	–	TBD

Phase A—Objectives and Qualitative Characteristics

6. This phase involves consideration of the objectives of financial reporting and the qualitative characteristics of financial reporting information, which include relevance, faithful representation, comparability (including consistency) and understandability, and trade-offs between qualitative characteristics and how they relate to the concepts of materiality and cost-benefit relationships.

7. On July 6, 2006, the Boards each issued for public comment an IASB Discussion Paper and FASB Preliminary Views document, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. The Boards were seeking comments by November 3, 2006. A staff summary of those comments and plans for next steps is being presented to the Boards at their meetings in February 2007. An oral overview of those comments will be provided for SAC at its meeting.

Phase B—Elements and Recognition

Asset Definition

8. The Boards have developed a working draft definition of an asset and have decided to consult their Advisory Councils, as well as some technical experts. That working draft definition is the subject of Agenda Paper 4A for discussion at this meeting.

Liability Definition

9. The Boards are continuing to develop a working draft definition of a liability that parallels that of an asset. The latest working draft definition is included in an Appendix to Agenda Paper 4A for this meeting. The Boards will continue their discussion of that definition in the next month or so.

Liability and Equity

10. The Boards requested that staff explore an alternative approach to reconsidering the existing definitions of liabilities and equity in the IASB Conceptual Framework and FASB Concepts Statements. That alternative focuses on developing a single element approach, such as claims, more fully and determining what the implications of adopting that approach might be. The Boards will receive an update on those activities in February 2007.

Phase C—Measurement

11. The Boards held roundtable discussions in Hong Kong, London and Norwalk during January and February, 2007. The objective of these round tables was threefold:
 - a) To hear the views of representative IASB and FASB constituents on measurement early in the measurement phase of the conceptual framework project. The discussion around this objective was unstructured. Any views on measurement that constituents wished to express were welcome.
 - b) To discuss whether the list of measurement issues identified in the plan for the measurement phase of the conceptual framework project is appropriate and substantially complete.
 - c) To discuss whether the initial inventory of potential measurement bases prepared by the project staff and the terminology associated with that inventory is substantially complete and understandable.

Phase D—Reporting Entity

12. Board deliberations on this phase of the project are ongoing, focusing on determination of the boundaries of a reporting entity for both an individual entity and a group of entities.

Phase F—Framework Purpose and Status in GAAP Hierarchy

13. At the October 2006 joint IASB/FASB meeting, the Boards agreed that each Board, within the context of its current GAAP hierarchy, will finalize the common framework as parts are completed and noted that later parts may include consequential amendments to earlier parts. The Boards noted that the decision of how to finalize the joint framework may need to be readdressed when the Boards discuss the placement of the framework within the IASB and FASB hierarchies.