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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at the IASB-FASB joint 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**

**SAC Meeting:** 13 November 2008, London

**Project:** Conceptual Framework

**Subject:** How to Make the Framework Effective  
*(Agenda Paper 6A)*

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## **INTRODUCTION**

1. Most respondents to the Exposure Draft on Objective and Qualitative Characteristics and the Discussion Paper on Reporting Entity were concerned that the boards proposed to publish each chapter of the Framework (thus making it effective) as it is completed. They urged the boards to publish a single exposure draft after all chapters of the project are completed so that constituents can review and comment on the revised framework as a whole.

### **Purpose of this Memo**

2. The purpose of this meeting is to discuss whether the IASB and FASB (the boards) should publish each chapter of the Framework as it is completed or wait until most or all chapters are completed. Feedback from the SAC will assist the staff in their research and recommendations to the boards on how to proceed on this issue.

## BACKGROUND

3. When the boards commenced the Framework project, the initial plan was to publish an initial document (discussion paper/preliminary views document), an exposure draft and a tentative version of each chapter as it was complete. Then, as part of a final phase, they would publish a comprehensive exposure draft to deal with all remaining issues.
4. Following comments from respondents on the Discussion Paper on Objective and Qualitative Characteristics, the boards revised that plan. They decided to publish a final version of each chapter as it is completed and acknowledged the possibility that consequential amendments would be needed because of decisions in later chapters. The boards also noted that their decision on how to complete the Framework may need to be reconsidered when they discuss the placement of the Framework within their hierarchies<sup>1</sup>.
5. Therefore, if the IASB were to finalise chapters 1 and 2, the IASB's "interim" Framework would be:

$$\begin{array}{ll} \text{New framework} & \text{New Chapters 1 and 2} \\ (20XX) = & \text{Add: existing Framework} \\ & \text{Less: (paragraphs 9-21 + paragraphs 23-46)}^2 \\ & \text{Add: other necessary consequential amendments} \end{array}$$

6. For the FASB, the presumption is that the new chapters 1 and 2 will replace FASB Concepts Statements No. 1 *Objectives of Financial Reporting by Business Enterprises and Concepts* and No. 2 *Qualitative Characteristics of Accounting Information*. Currently, the FASB does not expect consequential amendments to the other Concept Statements or to other pronouncements as result of completing chapters 1 and 2.

## ISSUES TO CONSIDER

7. The issues to consider when deciding how to finalise the Framework are:
  - (a) The users of the Framework
  - (b) Inconsistencies arising when updating the existing Framework
  - (c) Implications for other phases (peeking ahead)
  - (d) Use of the current thinking, after going through adequate due process

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<sup>1</sup> Paragraph P15 in the Preface to the phase A exposure draft and phase D discussion paper

<sup>2</sup> These are the paragraphs dealing with the objective of financial statements and the qualitative characteristics of financial statements

(e) Length of the Board members' terms

## Users of the Framework

8. The IASB and FASB will be the main users of their conceptual frameworks. However, IAS 8 requires that preparers, auditors and users of IFRS financial statements consider the IASB *Framework* when dealing with a transaction, other event or condition not addressed by a standard or interpretation<sup>3</sup>.
9. There is no similar requirement for entities preparing financial statements in accordance with existing US generally accepted accounting principles (GAAP). The FASB's Concepts Statements are non-authoritative; they have a lower authoritative status than practices that are widely recognised and prevalent either generally or in the industry<sup>4</sup>.
10. The boards have not reached a common conclusion on the authoritative status of their new frameworks, but both have decided that the frameworks will be lower in status than financial reporting standards. They also note that the common framework will not override those standards<sup>5</sup>.
11. Therefore, unless the IASB changes the hierarchy of pronouncements in IAS 8, the new Framework could begin to affect IASB constituents as each chapter is published.

## Potential Inconsistencies and Gaps

12. One concern about publishing 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 finalised, 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 seemingly can be overcome by making appropriate consequential amendments as needed.

## Implications to another phase (Peeking ahead)

13. Most respondents who were concerned that the boards would publish each chapter of the Framework as completed said that the boards needed to explain the implications of published chapters for those chapters that are not yet completed (and standard-setting).

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<sup>3</sup> IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraphs 10 and 11.

<sup>4</sup> FASB Statement No. 162 *The Hierarchy of Generally Accepted Accounting Principles*, paragraphs 4 and 5.

<sup>5</sup> Paragraph P14 in the Preface to the phase A exposure draft and phase D discussion paper

14. Paragraph BC1.16 in the Objective and Qualitative Characteristics ED is an example. Paragraph BC1.16 notes that the boards have not yet considered the effect of adopting the entity perspective on future phases. Some respondents expressed concern about that statement. For example, what is the effect on reporting non-controlling interest of preparing financial reports from the perspective of an entity? Would that mean that dividends would be considered expenses?
15. Some respondents were concerned that after the boards have published a chapter, the boards would be reluctant to reconsider the decisions in that chapter regardless of later decisions.
16. Finally, if the boards issued a comprehensive ED after completing all chapters of the Framework, respondents would be able to comment on whether that ED represents a comprehensive and integrated framework.
17. Even if the boards choose to publish each chapter of the framework as it is completed, each chapter will go through due process. Constituents will get two chances to comment on each issue and two chances to express their views about whether the proposals are consistent with chapters that have been published.

#### **Use the Current Thinking, after going through due process**

18. One advantage to publishing each chapter of the Framework as it is completed is that Board members could use the latest thinking in developing new standards. For example, provided the boards approved the qualitative characteristics as proposed in the Exposure Draft on Objectives and Qualitative Characteristics, the boards could use the term faithful representation rather than reliability.
19. If no chapters are published until all are completed, the boards would have difficulty in setting standards during the interim period between tentative completion of each chapter and publication of the full framework. They would in effect have two frameworks to consider—the one that was effective and the one they expected to be replace it. If the two conflicted, could the boards justify setting a standard they knew would be subject to change in a few years?

#### **Length of Board Members' Terms**

20. The Framework project will take several more years to complete. When the boards first put this project on the agenda, they acknowledged that a conceptual framework project would be more difficult and expensive to develop and have broader effects than standards

level projects. As such, a Board decision not to publish any parts of the Framework until the entire framework is complete may complicate the approval process.

21. If early chapters of the new Framework are not issued until a complete framework is ready, many of the Board members who would vote on the framework as a whole would not have deliberated or voted on the early chapters. Those future Board members might want to redeliberate decisions in earlier chapters and thereby delay completion even further.
22. Some constituents have suggested that the boards solely focus on the conceptual framework project – ie pour all resources to complete the Framework project. However, the staff does not think this is feasible as the boards have made commitments to meet other standard-level projects needs. And, these projects are also essential.

## **OTHER OPTIONS**

23. Some constituents have noted that there will be potential inconsistencies between the new Framework and existing standards, thus causing confusion. Therefore, it would be better for the boards to complete the Framework and update the standards. The staff think this is an ideal proposal, but it is not practical and feasible.
24. The staff also considered whether the boards and its constituents could separately apply different frameworks – the boards apply the updated Framework which includes the new Chapters of the new Framework (as suggested in paragraph 6 of this memo), but constituents apply the existing *Framework*. However, this option was rejected because it is confusing for everyone to have multiple versions of IASB frameworks around.

### **Questions to the SAC**

25. Have we outlined the relevant factors for the boards to consider in deciding how to publish the Framework?
26. Do you think the boards should publish (and thereby make effective) each chapter of the Framework as it is completed? If not, do you have other suggestions on how we should proceed?