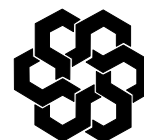




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (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: **March 2009, London**

Project: **Conceptual Framework**

Subject: **How to Finalise the Conceptual Framework (Agenda paper 2)**

INTRODUCTION

1. Most respondents to the Exposure Draft on the Objective and Qualitative Characteristics (the Objective ED) and the Discussion Paper on the Reporting Entity (the Reporting Entity DP) were concerned that the Boards proposed to make each chapter of the Framework effective as it is balloted and published. These respondents urged the Boards to publish a single Exposure Draft after all chapters of the conceptual framework are published (but not yet made effective) so that constituents can review and comment on the new framework as a whole.

Purpose of this Memo

2. The purpose of this meeting is to decide whether the Boards should make the new Framework effective as each chapter is balloted and published or wait until most or all chapters are balloted and published.

BACKGROUND

3. When the Boards commenced the conceptual framework project, the initial plan was to publish a discussion paper, an exposure draft and a tentative version of each chapter as they were balloted. Then, as part of the final phase, the Boards would publish a comprehensive exposure draft to deal with all remaining issues and make the entire framework effective at a single date¹.
4. Following comments from respondents on the Discussion Paper on the Objective and QCs, the Boards revised that plan. The Boards decided to publish the final version of each chapter as it is balloted and acknowledged the possibility that consequential amendments would be needed because of the decisions made in later chapters. The Boards also noted that their decision on how to make the framework effective may need to be reconsidered when the Boards discuss the placement of the framework within their hierarchies².
5. Therefore, if the IASB were to finalise chapters 1 and 2, the IASB tentatively decided that its “interim” Framework would be (as noted in the Objective ED):

New framework = New Chapters 1 and 2
 Add: existing *Framework*
 Less: (paragraphs 9-21 + paragraphs 23-46)³
 Add: other necessary consequential amendments

6. For the FASB, the presumption is that the new chapters 1 and 2 will replace Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises and Concepts*, and No. 2, *Qualitative Characteristics of Accounting Information*. This is similar to what was done when the FASB replaced Concepts Statements No. 3, *Elements of Financial Statements of Business Enterprises*, with Concepts Statements No. 6, *Elements of Financial Statements*. Apart from that, the FASB has generally not done any consequential amendments to existing Concept Statements when they published new Concept Statements. Therefore, we will assume that Concepts Statements 4-7 would not

¹ February 2005 IASB Agenda Number No 11/FASB Memo #1 *Draft Project Plan*, IASB Update February 2005 and FASB Minutes for February 23, 2005.

² Paragraph P15 in the Preface to the Objective ED and Reporting Entity DP.

³ These are the paragraphs dealing with the objective of financial statements and the qualitative characteristics of financial statements

be amended when the first chapters of the new framework are published, unless told otherwise.

ISSUES TO CONSIDER

7. The issues to consider when deciding how to finalise the Framework are:
 - a. The users of the Framework
 - b. Inconsistencies in terminology or substance 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
 - e. Length of the Board members' terms.

Users of the Framework

8. 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 noted that the common framework will not override those standards⁴. The Boards indicated that the authoritative status of the new frameworks will be discussed in a later phase of the conceptual framework project.
9. The purpose of the Framework, including the issue of whether it is mandatory for standard setters or merely serve as a guide – continued to be an issue raised by respondents to the Objective ED and Reporting Entity DP. Many urged the Boards to commence the phase dealing with this issue as soon as possible.
10. The IASB, in addition to using the *Framework* to set standards, also explicitly requires preparers and auditors of IFRS financial statements to consider the *Framework* when dealing with a transaction, other event or condition not addressed by a standard or interpretation. Paragraphs 10 and 11 of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, says:

10 In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall

⁴ Paragraph P14 in the Preface to the Objective ED and the Reporting Entity DP

use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

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

- 11. 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 currently are non-authoritative; they have a lower authoritative status than practices that are widely recognised and prevalent either generally or in the industry⁵.
- 12. Unless the IASB changes the hierarchy of pronouncements in IAS 8, the new framework could begin to affect IASB constituents as each chapter is made effective.
- 13. We considered whether the IASB and its constituents could separately apply different frameworks – the Board apply the new framework but their constituents apply the existing frameworks until the entire framework is

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

published. However, we rejected this option because it would be confusing to have multiple versions of frameworks in place.

Inconsistencies arising when updating the existing frameworks

14. One concern about making each new chapter effective as it is published might be the potential for inconsistencies between the new chapter and other parts of the existing frameworks and standards. For example, if the QC chapter is made effective, references in the existing IASB *Framework* to *reliability* as a QC will be outdated. The term *reliability* is used in many standards, which will also be outdated.
15. In developing the Objective and QC ED, the IASB tentatively decided:
 - a. Not to redraft the recognition criteria but include a footnote to explain that the term *reliability* would be replaced with *faithful representation*. This is because that is beyond the scope of the Objective and Qualitative Characteristics phase of the project.
 - b. Not to amend existing IFRSs. This is because: (i) nothing in the Framework should override any specific standards and (ii) updating standards, even to update terminology, will consume more resources than currently available and delay publication of the chapters.

We speculate that the FASB did not make the decision to amend Concepts Statements 4-7 and FASB standards because the FASB has historically not done any consequential amendments when publishing new Concept Statements.

Implications for other phases (Peeking ahead)

16. Most respondents who were concerned that the Boards would make each chapter of the framework effective as it is published stated that the Boards needed to explain the implications of published chapters for other chapters that are not yet completed (and standard-setting).
17. These respondents raised paragraph BC1.16 in the Objective ED as 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 of preparing

financial reports from the perspective of an entity on reporting non-controlling interests? Would that mean that dividends would now be considered expenses?

18. Some respondents were concerned that once the Boards have published and made a chapter effective, the Boards are likely to be reluctant to reconsider the decisions in that chapter regardless of later decisions.
19. Finally, some other respondents noted that if the Boards issued a comprehensive Exposure Draft after publishing all chapters of the framework (but not yet making them effective), respondents would be able to comment on whether that entire document represents a comprehensive and integrated framework.
20. We note that, even without a comprehensive ED, constituents will have two chances (the Discussion Paper and the Exposure Draft) 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 of the current thinking, after going through due process

21. One of the major advantages to making each chapter of the framework effective as it is published is that Board members, particularly those of the IASB, could explicitly use the latest thinking in developing new standards. For example, the Boards could use the term *faithful representation* rather than *reliability* as soon as the Boards publish or make effective the chapter on QCs.
22. If no chapters are made effective until all chapters are published, the Boards are likely to face difficulty in setting standards during the interim period between tentative completion of each chapter and the publication of the full framework. They would, in effect, have two frameworks to consider—the one that was effective and the one they expect to replace it. If the two conflict with each other, could the Boards justify setting a standard they knew would be subject to change (and in some cases, become inconsistent with the new framework) in a few years?

Length of Board Members' Terms

23. The conceptual framework project is likely to take several more years before the entire framework is published. As such, a decision not to make effective any

part of the framework until the entire framework is complete may complicate the approval process.

24. If early chapters of the new framework are not made effective until the entire framework is ready, many of the Board members who would vote on the entire framework would not have deliberated or voted on the early chapters. Those future Board members might want to redeliberate the decisions made in earlier chapters and thereby delay the publication of the entire framework even further.
25. Some constituents have suggested that the Boards only focus on the conceptual framework project – that is, pour all resources to complete the conceptual framework project. However, we do not think that is feasible and that would delay all projects on the MOU.

STAFF VIEWS AND RECOMMENDATION

26. We recommend that the new framework be made effective as each chapter is published as this is the most pragmatic way going forward. Both Boards could immediately apply the new chapters to set standards.
27. In developing the Objective ED, the IASB tentatively decided that the new framework (as described in paragraph 5) would be effective for constituents a year from publication⁶. We continue to support these decisions. (This issue is not relevant to the FASB.)
28. We recommend that the IASB not change the rest of the existing *Framework* as a consequence of publishing the new chapters, except for the consequential amendments proposed in the Objective ED.
29. We also recommend that the IASB not make consequential amendments to standards. However, we think that for paragraphs 10 and 11 of IAS 8 (quoted in paragraph 10 of this paper) should be amended in a separate project because we view these paragraphs so integral to the framework that we think the IASB should update them when the chapter on QCs is published.

⁶ IASB Update October 2007

30. We propose that, other than replacing CON 1 and CON 2, the FASB not make consequential amendments to existing Concept Statements. This is because, unlike the IASB's *Framework*, the Concept Statements are separate and individual **documents**. We also propose that the FASB not make any consequential amendments to standards as part of the framework project.

Questions

31. Do you agree that the Boards should make each chapter of the Framework effective as it is published? If not, do you have other suggestions on how to move forward?
32. FASB only: Other than replacing CON 1 and CON 2, do you agree not to make consequential amendments to other Concept Statements? Do you agree not to make consequential amendments to standards?
33. IASB only: Do you agree not to make consequential amendments to the *Framework* other than those proposed in the Exposure Draft?
34. IASB only: Do you agree that paragraphs 10 and 11 of IAS 8 should be amended when the chapter on QCs is published? If so, do you agree that it should be addressed in a separate project?
35. IASB only: If you agree that each chapter should be made effective as it is published, do you agree to make each chapter of the conceptual framework is effective for preparers one year after the new chapter is published?

APPLYING THE DECISIONS

36. This section assumes that the Boards decide to make each chapter of the Framework effective as it is published (ie you agree to question in paragraph 31 above).
37. As you are aware, the Reporting Entity phase deals with several issues, some of which relate to the Objective Chapter, eg what is a reporting entity or group reporting entity to which the objectives of financial reporting apply. It could be argued that because of that relationship, it might be best to finalize the Objective Chapter and the Reporting Entity Chapter at the same time, possibly as an integrated chapter.

38. It could be argued that that relationship is a reason to postpone the effective date for the Objective Chapter for nearly a year to allow for the completion of the remaining due process and finalization of the Reporting Entity Chapter. If the Boards were to choose that option, you might also wish to accelerate the exposure period of the Reporting Entity ED.
39. We recommend that the Boards finalise the Objective and QC Chapters independently of the Reporting Entity Chapter. That is, the Reporting Entity Chapter would be an independent Chapter rather than an amendment to the Objective Chapter. Although the Reporting Entity phase may result in some amending text for the description of a reporting entity within the Objective Chapter, we think that the final result should be an independent chapter. This is because the Reporting Entity's main purpose would deal with several significant issues that do not fit within the Objective Chapter, such as the discussion of what constitutes a group reporting entity and the definition of control and its related explanatory text. Independent Chapters would facilitate the understanding of the users of the Framework. .
40. Furthermore, due to the attention some of the issues raised on the Objective and QC Chapters, we think the effective date for these Chapters should not wait for the Reporting Entity Chapter. Moreover, in view of the importance of this project and constituents asking the Boards to provide them with adequate time to consider the Boards' proposals, a shorter exposure period would not be welcomed by constituents.

Questions:

41. Do you agree that the issues discussed in the Reporting Entity phase should be drafted as an independent Chapter?
42. Do you agree that the effective date for the Objective and QC Chapters should be independent of the effective date of the Reporting Entity Chapter?