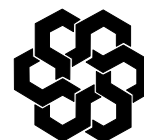




Financial Accounting
Standards Board

401 Merritt 7, PO Box 5116, Norwalk, CT 06856,
USA
Tel: +1 203 847 0700
Fax: +1 203 849 9714
Website: www.fasb.org



International
Accounting Standards
Board

30 Cannon Street, London EC4M 6XH,
United Kingdom
Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Website: www.iasb.org

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: Phase F**

Subject: **Purpose and Status of the Framework (Agenda paper 2A)**

PURPOSE OF THIS PAPER

1. This paper is intended to start a discussion of the purpose and status of the joint framework currently under development. It may be important to consider the purpose and status at this point because it may affect the decision on how the Framework is to be published (which is the subject of a separate paper for this meeting).
2. One of the potential issues with publishing each chapter separately involves preparers of financial statements that include significant matters not addressed by existing standards. Those preparers may have difficulty (at least in theory) justifying their current practices if different parts of the Framework are

inconsistent because the boards have finished revising and publishing one part while revision of another part is still in process.

3. It appears that the issue of inconsistency will be more likely to arise in IFRS financial statements than in US GAAP financial statements for at least two reasons. First, the IASB Framework is considered to be authoritative for matters not addressed by existing standards, and second, there are probably fewer matters not addressed by US GAAP than by IFRSs.
4. This paper compares the status of the two frameworks and asks whether either board should change the status of its framework.

**Comparison of the IASB Framework and the FASB Concepts Statements:
Purpose and Status**

5. A short paraphrased summary of the purpose and status of the IASB Framework and the FASB Concepts Statements is attached to this paper. That comparison shows that the two have more similarities than differences. They are:
 - a. Both start by saying the boards are the primary users
 - b. Both say they are intended to help constituents understand purposes and contents of financial reports. (The IASB Framework specifically identifies preparers, auditors, and users while the FASB Concepts Statements refer only to constituents in general, but that does not seem to have significant consequences.)
 - c. Both say they are not intended to set new standards.
 - d. Both say they are not intended to change, amend, or otherwise override existing standards.
 - e. Both refer to possible use in accounting for matters not addressed by existing standards with different wording and strength
 - (1) FASB: Careful use of the concepts may provide guidance in resolving new or emerging problems
 - (2) IASB: Assist preparers in applying standards and in dealing with matters not addressed by standards.
6. The most obvious difference is that the FASB Concepts Statements explicitly state that they are not intended to invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the AICPA (which means that they are not authoritative). There is no comparable statement in the IASB Framework.

7. FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, is more specific than the Concepts Statements. Statement 162 lists four categories of authoritative standards (labeled (a) through (d)), none of which include Concepts Statements. It also states that if accounting for a particular transaction or event is not specified in the four authoritative categories, an entity should go through the following process:
 - a. First consider accounting principles for similar transactions or events within categories (a)–(d) and then consider other accounting literature.
 - b. Do not apply by analogy a specific transaction or event if standards prohibit an entity from doing so
 - c. Other accounting literature includes, for example:
 - (1) FASB Concepts Statements
 - (2) AICPA Issues Papers
 - (3) IFRSs
 - (4) Pronouncements of professional associations or regulatory agencies
 - (5) AICPA Technical Practice Aids
 - (6) Accounting textbooks, handbooks, and articles.
 - d. FASB Concepts Statements would normally be more influential than other sources within the “other accounting literature” category.
8. Similarly, IAS 8 is more specific than the IAS Framework (and more specific than Statement 162). It describes the following process (which is paraphrased, not quoted) for selecting accounting principles for matters not specifically addressed by standards:
 - a. Develop and apply a policy that results in information consistent with the qualitative characteristics in the Framework
 - b. Sources should be considered in the following order:
 - (1) IFRSs dealing with similar or related matters
 - (2) Definitions, recognition criteria, and measurement concepts in the Framework
 - (3) Most recent pronouncements of other standards setters that use a similar framework, other accounting literature, and accepted industry practices (if they do not conflict with items (1) and (2)).
9. The FASB’s current plan is that when the codification becomes effective later this year, the four categories of authoritative standards will be combined into one. All will be equal. The “other accounting literature” category, which

includes Concepts Statements, will continue to be nonauthoritative. Without specific action by the FASB, the status of FASB Concepts Statements will not change. It will still be the most influential of the nonauthoritative sources of GAAP.

10. The comparison shows that the difference in purpose and status of the IASB Framework and the FASB Concepts Statements is relatively small. That difference appears to relate only to matters not specifically addressed by existing standards. Although IAS 8 is much more specific than Statement 162, there may be little or no practical difference.

QUESTION FOR THE BOARDS

11. **Question for the boards: Should the FASB increase the status of its Concepts Statements, should the IASB reduce the status of its Framework, or should the differences be maintained?**
12. The analysis of the differences in status in paragraphs 5–10 seems to indicate that the decision is not as important as it might have seemed initially.

PURPOSE AND STATUS OF IASB FRAMEWORK AND THE FASB CONCEPTS STATEMENTS

IASB (paraphrased from paragraphs 1 and 2 of the Framework)

1. The purpose of the Framework is to:
 - a. Assist the board in developing future standards
 - b. Provide a basis for reducing the number of alternatives in existing standards
 - c. Assist national standards setters
 - d. Assist preparers in applying standards and in dealing with matters not addressed by a standard
 - e. Assist auditors in forming opinions about conformity
 - f. Assist users in interpreting financial information.
 - g. Inform interested parties about the board's approach to developing standards.
2. The Framework is not intended to:
 - a. Set new standards for particular disclosure or measurement issues
 - b. Override any existing standards.

FASB (paraphrased from CON 1 and 2)

3. Concepts Statements will guide the Board in developing standards by providing a common foundation and basic reasoning on which to consider alternatives.
4. Knowledge of the concepts should help constituents to understand the purposes, content, and characteristics of financial information, which should enhance the usefulness of, and confidence in, that information.
5. Careful use of the concepts may provide guidance in resolving new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.
6. Concepts Statements are not intended to:
 - a. Establish standards for particular items or events
 - b. Require a change in existing GAAP
 - c. Amend, modify, or interpret existing GAAP
 - d. Justify reinterpreting GAAP based on personal interpretations of the concepts
 - e. Invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the AICPA.