STAFF PAPER

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IASB Meeting

Project	**Annual Improvements project – 2009-2011 cycle**		
Paper topic	Comment letter analysis of the proposed changes to IAS 1 derived from the *Conceptual Framework for Financial Reporting* (issued in 2010).		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. The exposure draft of proposed *Improvements to IFRSs* published in June 2011 (exposure draft 2011) includes a proposal to:

   (a) update the "objective of financial statements" contained in paragraph 9 of IAS 1 *Presentation of Financial Statements* with the "objective of financial reporting"; and to

   (b) update the definition of "understandability" in paragraph 7 of IAS 1 to be consistent with the new definition in the *Conceptual Framework for Financial Reporting* (hereinafter, *Conceptual Framework*)

2. The exposure draft of proposed *Improvements to IFRSs* (published in August 2009) included a proposal to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to be consistent with the changes in terminology made by, what was at the time, the forthcoming *Conceptual Framework*. The objective was to:

   (a) reflect the use of the term "faithful representation", and

   (b) replace the term "reliable" and the Board therefore proposed changing paragraphs 10, 14 and 29 of IAS 8.

3. The Board approved (or balloted) the finalisation of the amendments to IAS 8 in July 2010. However, it decided to wait to amend IAS 1 until Chapters 1 and 3 of the new *Conceptual Framework* were published[1].

4. The proposed amendments to IAS 1 or IAS 8 (as described above) were not considered by the IFRS Interpretations Committee because they were proposed directly by the Board. Consequently, the Committee did not provide recommendations on the proposed amendments.

Objective of this paper

5. The objective of this paper is to:

   (a) provide an analysis of the comment letters received on the proposals above; and

   (b) obtain a Board decision on whether to finalise the proposed amendments.

Structure of this paper

6. This agenda paper:

   (a) provides **background information** on the issue;

   (b) **analyses the comments received** as part of the exposure draft process;

   (c) requests the Board to confirm whether they agree with the staff recommendation not to finalise the proposed amendments to IAS 1 as part of the annual improvements project.

7. Also in this paper:

   (a) **Appendix A** includes the annual improvements criteria

   (b) **Appendix B** (B1 and B2) shows the proposed amendments to IAS 1

      (i) highlighting differences from the currently effective standard; and

[1] Chapters 1 and 3 of the *Conceptual Framework* were published in September 2010.

(ii) highlighting the revisions to the wording in the previously published exposure draft

(c) **Appendix C** (C1 and C2) shows the proposed amendments to IAS 1:

(i) highlighting differences from the currently effective standard; and

(ii) highlighting the revisions to the wording approved by the Board at the ballot draft stage.

(d) **Appendix D** includes the communication received by the Trustees of the Due P*rocess Oversight Committee* of the IASB from the Autorité des Normes Comptables (ANC).

Background

8. In September 2010, the Board issued the first two chapters (1 and 3) of its new *Conceptual Framework*. These chapters address:

(a) the "objective of general purpose financial reporting" (Chapter 1); and

(b) the qualitative characteristics of useful financial information (Chapter 3).

The objective of financial reporting

9. The *Conceptual Framework* now deals with the 'objective of financial reporting' rather than with the 'objective of financial statements'. In the Basis for Conclusions the Board stated:

> BC1.4 Consistently with the Board's responsibilities, the *Conceptual Framework* establishes an objective of financial reporting and not just of financial statements. Financial statements are a central part of financial reporting, and most of the issues that the Board addresses involve financial statements. Although the scope of FASB Concepts Statement No. 1 *Objectives of Financial Reporting by Business Enterprises* was financial reporting, the other FASB concepts statements focused on financial statements. The scope of the Board's *Framework for the*

Preparation and Presentation of Financial Statements, which was published by the Board's predecessor body in 1989 (hereinafter called *Framework* (1989)), dealt with financial statements only. Therefore, for both boards the scope of the *Conceptual Framework* is broader.

10. The table below contrasts the 'objective of financial statements' that is currently in IAS 1 with the 'objective of financial reporting' in paragraph OB2 of the *Conceptual Framework.*

Objective of financial statements	***Objective of financial reporting***
IAS 1, Par. 9: The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.	**Conceptual Framework, Par. OB2:** The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

11. Paragraph 9 of IAS 1 *Presentation of Financial Statements* quotes the 'objective of financial statements' from the superseded *Framework* (1989). In its exposure draft (June 2011) the Board proposed to replace the 'objective of financial statements' with the 'objective of financial reporting', to:

    (a) be consistent with the *Conceptual Framework* and

    (b) to avoid confusion and translation difficulties for the same concept[2].

New terminology for qualitative characteristics

12. The *Conceptual Framework on Financial Reporting* also adopted new terminology for some of the qualitative characteristics of financial reporting:

    (a) the definition of 'understandability' was updated; and

    (b) the term 'reliable' was replaced to 'faithful representation'.

[2] The Board's considerations for making this change can be found in the Basis for Conclusions in Appendix B of this paper.

Definition of 'understandability'

13. The definition of 'understandability' is now different in the *Conceptual Framework* because:

    (a) users' minimum level of knowledge is no longer meant to include accounting-specific knowledge; and

    (b) users are now responsible for **studying** the reported financial information with reasonable diligence and no longer **be willing to study** the information diligently.

14. Paragraph 7 of IAS 1 quotes the old definition of 'understandability' from the superseded *Framework* and the Board proposed that it should be updated to reflect the latest definition.

Replacement of the term 'reliable' with 'faithful representation'

15. As we have mentioned in paragraph 2 of this paper, in its exposure draft (issued in August 2009) the Board exposed a proposal to amend IAS 8 to reflect the use of the term 'faithful representation', and replace the term 'reliable' in paragraphs 10, 14 and 29 of IAS 8. In July 2010 the Board approved this amendment.

Comment letter summary

16. The Board received 67 comment letters on the ED (June 2011), which asked two questions:

    (a) Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?)

    (b) Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

17. About a third of those respondents (comprising accounting firms, some national standard-setters, regulators and preparers) who specifically commented on the proposed amendments to IAS 1 arising from the amendments to the *Conceptual*

Framework agreed with the Board's proposals. In addition, some of them suggested further amendments to IAS 1. For example:

> We support the proposed amendments … for consistency with the updated *Conceptual Framework*. However, we note that … *the Conceptual Framework* explicitly refer to information about how management has discharged its responsibilities as being useful in making decisions about the entity. Consistent with the view expressed in the *Conceptual Framework*, we believe that this is a key principle that should be carried forward to the wording included in IAS 1. This also would be consistent with the reference to "stewardship" in current paragraph 9 of IAS 1. [CL49]

18. But about a dozen of respondents (mainly comprising national standard-setters and preparers from Europe) raised concerns on the proposed amendment.

19. Their main concerns raised can be summarised as follows:

    (a) the proposed amendment:

        (i) does not have the nature of an annual improvement; and

        (ii) is considered premature.

    (b) the objective of financial statements" and the "objective of financial reporting" are not the same concepts.

    The following section provides more information on their concerns.

20. There was no specific comment in regards to updating the definition of understandability in IAS 1.

Complaints to the Due Process Oversight Committee

21. The Autorité des Normes Comptables (ANC) who also responded to the exposure draft (June 2011), sent a letter (dated 21 October 2011) to the Chairman of the Trustees' *Due Process Oversight Committee* of the IASB raising concerns on the proposals to amend IAS 1 as a result of the *Conceptual Framework* did not meet

the nature of an annual improvement. Their letter is attached to this agenda paper as **Appendix D**.

Main concerns raised

The proposed amendment does not have the nature of an annual improvement

22. Some respondents viewed that the proposed amendment did not meet the annual improvements criteria because it is neither clarifying nor correcting IFRSs. For example (emphasis added):

> **The proposed changes do not clarify unclear wording in existing IFRSs, nor do they provide guidance. On the contrary, they introduce new concepts** (i.e. "financial report" and "financial reporting") that are not well defined in IFRS and remove some others (i.e. purpose of financial statements, reference to performance and stewardship).
> **The proposed changes do not correct conflicts or oversight between existing requirements of IFRSs.** Firstly because the revised Conceptual Framework is not an IFRS. Secondly, as previously mentioned, because the purpose of financial statements as currently stated in IAS 1 does not conflict with the objective of financial reporting as stated in the revised Conceptual Framework, considering financial statements as a part of financial reporting. [CL55]

23. A respondent who viewed that the proposed amendments to IAS 1 met the annual improvements criteria proposed that the Board consider a separate due process when addressing any improvements to IFRSs as a consequence of changes from the *Conceptual Framework*.

> If the IASB intends to propose that the revised *Conceptual Framework* be reflected in existing standards, it should undertake a separate project to that purpose. We also believe that the IASB should consider amendments to existing standards, resulting from any future changes to its Conceptual Framework, at the time changes to the

> conceptual framework are proposed, to allow constituents to better understand the practical implications of the change at the concept level. This should be required as part of its normal due process. [CL67]

The proposed amendment is premature because amendments should be made after the Board has completed its project on the Conceptual Framework

24. Some respondents think that amendments to particular IFRSs should be considered only after the Board has completed its project on the *Conceptual Framework*. Some of these respondents disagreed with the Board's piecemeal approach when revising the *Conceptual Framework*. For example:

> In fact, we have already expressed our concerns about the piecemeal approach developed for revising the Conceptual Framework since we believe that no part of the Framework should be finalised, let alone incorporated in standards, until all the chapters are ready to be finalised. [CL30]

The "objective of financial statements" and the "objective of financial reporting" are not the same concepts

25. Some respondents disagree with the proposed change because they view that the 'objective of financial reporting' is a different concept from the 'objective of financial statements'. This is because they view that financial reporting is a broader scope than financial statements. For example (emphasis added):

> The proposals also introduce in the standards some wider ill-defined concepts. Indeed, **the proposed amendments introduce the terms of "financial reporting" and "financial reports" that are broader than financial statements, as they include for example the Management commentary report**
>
> Moreover, these new terms remain undefined as the IASB is supposed to set the boundaries of financial reporting in Phase E of the Conceptual Framework project that has not yet started. A standard referring to an ill- defined concept could therefore lead to misinterpretation and controversy.

> Practically, as the IASB's remit in Europe is on financial statements only, **the insertion of the wider concepts of "financial report" and "financial reporting" in the international accounting standards would entail some legal implications.** The consistency with other European regulations would have also to be reviewed as, for example, the "annual financial report" is already well defined in the Transparency Directive
>
> (...) Nevertheless, for the reasons listed above, **we do not think that "purpose of financial statements" and "objective of financial reporting" embrace the same concepts**. Moreover regarding translation matters, we expect more difficulties for "financial reporting" and "financial report" than with "financial statements".
>
> Finally, although financial reporting and financial statements are not the same, we do not see any contradiction between the current objective of financial statements in IAS 1 and that of financial reporting as per the recently published conceptual framework and therefore consider that the change proposed is not warranted. [CL 55]

Staff analysis

Annual improvements criteria

26. Broadly, the annual improvements criteria responds to two needs:

    (a) a need to clarify IFRSs; and/or

    (b) a need to correct a relatively minor unintended consequence, to resolve a conflict or to remedy an oversight.

    The full annual improvements criteria from the IASB due process handbook are shown in **Appendix A**.

27. It could be viewed that the proposals to amend IAS 1 met the annual improvements criteria because the objective was to minimise confusion of having different types of objectives when the Board had replaced its objective of financial

statements in its previous *Framework* with the objective of financial reporting. Furthermore, the Board would be applying the new and updated objective of financial reporting when developing standards rather than use the superseded objective of financial statements.

28. The *Conceptual Framework* is not an IFRS and does not override IFRSs. We agree with the view that currently there is no conflict within IFRSs in regards to the objective of financial statements and clarification could be deemed unnecessary. We also think that there is merit with the views expressed above that the Board should consider amending IFRSs arising from changes from the *Conceptual Framework* as a separate project. This separate project would give due prominence to any changes.

Staff recommendation

29. We think that the Board should propose changes to IFRSs arising from revisions to the *Conceptual Framework* as part of a separate project, distinct from the annual improvements process. We think that the Board could use such an opportunity to examine the content of IFRSs, in particular IAS 1, in more detail and propose other possible amendments arising from revisions from the *Conceptual Framework*. Our view is that in order to start reaping the benefits of the improvements to the *Conceptual Framework* sooner, proposals for amendments for IFRSs should be developed and published for comment as each chapter of the *Conceptual Framework* is finalised.

30. The following section analyses the other concerns raised if the Board views that amendments to IFRSs arising from the *Conceptual Framework* should continue to be included as part of the annual improvements process.

Question 1 Whether to proceed with the changes
We recommend that changes made to IFRSs arising from changes from the *Conceptual Framework* should be undertaken as a separate project. Do you agree?

If the Board disagrees with staff recommendation above

31. The following discussion is presented if the Board decides to finalise the amendments arising from the *Conceptual Framework* as part of the annual improvements process.

Other concerns raised when amending IAS 1

32. The Board, when determining the boundaries of financial reporting as part of its *Conceptual Framework* project, may view that financial statements should have a more specific objective than the objective of financial reporting. Consequently, there is merit in the view that amending IAS 1 now to include a broader objective when IAS 1's focus is on financial statements (as opposed to financial reporting) may be premature.

33. Conversely, some may take the view that the proposed amendments are not premature and that amending the objective of financial statements would decrease potential confusion among the IFRS stakeholders. This is because:

    (a) the *Conceptual Framework* chapter on the objective of financial reporting was recently updated to replace the objective of financial statements. Some could view that more of the IASB stakeholders are aware of the new objective rather than were aware of the previous, now superseded, objective of financial statements.

    (b) retaining the objective of financial statements when the Board decided to delete it in their *Conceptual Framework* could create confusion. This is because the Board would be applying it immediately when developing IFRSs. Furthermore, when reading IFRSs, that person (or entity) would have to read the IFRSs in the context of the *new Conceptual Framework.*

    (c) the *Conceptual Framework* project would not be completed in the immediate future. How and when the Board completes this project will also depend on the outcome of its agenda consultation. Consequently, it may be some time before the Board determines the boundaries of financial reporting. Having two 'objectives' that are intended to be broadly the same (ie addressing the same concepts) but have different words and waiting until the Board completes the *Conceptual Framework* project could lead to confusion.

Staff recommendation

34. If the Board decides to proceed to amend IFRSs as part of the annual improvements process following the completion of Chapters 1 and 3 of the *Conceptual Framework*, we recommend the following:

    (a) Update the terminology in IAS 1 and IAS 8 to reflect the new terminology of the qualitative characteristics introduced in the updated *Conceptual Framework.*

    (b) Incorporate the objective of financial reporting and replacing the ‘objective of the financial statements’ in IAS 1.

35. Our recommended changes to the draft wording and a draft Basis for Conclusions of IAS 1 and IAS 8, if the Board decides to proceed with these amendments, are included as appendices, as follows:

    (a) **Appendix B** (B1 and B2) shows the proposed amendments to IAS 1:

        (i) highlighting differences from the currently effective standard; and

        (ii) highlighting the revisions to the wording in the previously published exposure draft

    (b) **Appendix C** (C1 and C2) shows the proposed amendments to IAS 1:

        (i) highlighting differences from the currently effective standard; and

        (ii) highlighting the revisions to the wording approved by the Board at the ballot draft stage.

Question 2 If the Board decides to proceed to amend IAS 1 and IAS 8 within the annual improvements process
1. Does the Board agree with the staff recommendation to amend paragraph 7 of IAS 1 to update the concept of “understandability”’ in IAS 1 and to update the term ‘reliable’ in paragraphs 10, 14 and 29’ of IAS 8?

2. Does the Board want to proceed to update IAS 1 to incorporate the objective of financial reporting?

3. Does the Board have any comments on the wording of the proposed amendments to IAS 1 and IAS 8 in **Appendix B** and **Appendix C** of this staff paper?

Appendix A: Annual improvements criteria

65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.

(a) The proposed amendment has one or both of the following characteristics:

(i) clarifying—the proposed amendment would improve IFRSs by:

- clarifying unclear wording in existing IFRSs; or
- providing guidance where an absence of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

(ii) correcting—the proposed amendment would improve IFRSs by:

- resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied; or
- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle.

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

65B The IASB assesses annual improvements against the criteria in paragraph 65A before they are published in an exposure draft and before they are issued as amendments to IFRSs.

Appendix B1— Draft wording of the proposed amendment, showing differences from the currently effective standard

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended and an accompanying footnote is deleted. Paragraph 9 is deleted. Paragraphs 9A and 9B are added.

7 …

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Conceptual Framework for Financial Reporting 2010* ~~The *Framework for the Preparation and Presentation of Financial Statements*~~ states in paragraph QC32 ~~25*~~ that 'Financial reports are prepared for users who ~~are assumed to~~ have a reasonable knowledge of business and economic activities ~~and accounting~~ and who review and analyse ~~a willingness to study~~ the information ~~with reasonable diligence~~ diligently.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

…

[* footnote deleted]

Financial statements

Objective of financial reporting~~Purpose of financial statements~~

9 [Deleted] ~~Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:~~

(a) ~~assets;~~

(b) ~~liabilities;~~

(c) ~~equity;~~

(d) ~~income and expenses, including gains and losses;~~

(e) ~~contributions by and distributions to owners in their capacity as owners; and~~

(f) ~~cash flows.~~

~~This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.~~

9A The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and claims against the reporting entity. General purpose financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. Both types of information provide useful input for decisions about providing resources to an entity.

9B To meet the objective of general purpose financial reporting, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users in assessing the prospects for future net cash inflows to an entity and, in particular, their timing and certainty.

Transition and effective date

139M *Improvements to IFRSs* issued in [date] amended paragraph 7, deleted paragraph 9 and added 9A –9B. An entity shall apply these amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments

Changes to reflect the *Conceptual Framework*

BC13A In September 2010, the Board issued the first two chapters (1 and 3) of its new *Conceptual Framework for Financial Reporting*. These chapters addressed the objective of financial reporting and the qualitative characteristics of useful financial information. The Board adopted a new objective of financial reporting, superseding the objective of financial statements. To avoid confusion and translation difficulties for the same concept, the Board proposes to replace the objective of financial statements in IAS 1 with the objective of financial reporting in the *Conceptual Framework*. In addition, the Board also proposes to update the paragraphs that refer to the qualitative characteristics for consistency with the *Conceptual Framework*.

Appendix B2—Draft wording of the proposed amendment, showing differences from the exposure draft published in June 2011 if the Board decides to proceed with this amendment

Proposed amendments to IAS 1 *Presentation of Financial Statements*

Paragraph 7 is amended and an accompanying footnote is deleted. Paragraph 9 is deleted. Paragraphs 9A and 9B are added.

7 …

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Conceptual Framework for Financial Reporting 2010* states in paragraph QC32 that 'Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

…

[* footnote deleted]

Financial statements

Objective of financial reporting

9 [Deleted]

9A The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and claims against the reporting entity. General purpose financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. Both types of information provide useful input for decisions about providing resources to an entity.

9B To meet the objective of general purpose financial reporting, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users in assessing the prospects for future net cash inflows to an entity and, in particular, their timing and certainty.

Transition and effective date

139M *Improvements to IFRSs* issued in [date] amended paragraphs~~s~~ 7, ~~10, 38 and 41,~~ deleted paragraph ~~3~~9, ~~renumbered paragraph 40 as paragraph 38C and amended it~~ and added paragraphs ~~38A, 38B and 40A~~ 9A–9B~~40C~~. An entity shall apply this amendment for annual periods beginning on or after 1 January 2013~~[date]~~. Earlier application is permitted. ~~If an entity applies the amendments for an earlier period it shall disclose that fact.~~

Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments

Changes to reflect the *Conceptual Framework*

BC413A In September 2010, the Board issued the first two chapters (1 and 3) of its new *Conceptual Framework for Financial Reporting*. These chapters addressed the objective of financial reporting and the qualitative characteristics of useful financial information. The Board adopted a new objective of financial reporting, superseding the objective of financial statements. To avoid confusion and translation difficulties for the same concept, the Board proposes to replace the objective of financial statements in IAS 1 with the objective of financial reporting in the *Conceptual Framework*. In addition, the Board also proposes to update the ~~consideration of the~~ paragraphs that refer to the qualitative characteristics ~~of users~~ ~~to be consistent~~ for consistency with the ~~guidance in the~~ *Conceptual Framework.*

Appendix C1— Draft wording of the proposed amendment, showing differences from the currently effective standard

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 10, 14 and 29 are amended (new text is underlined and deleted text is struck through). A footnote is added to paragraph 10. Paragraph 54D is added.

Accounting policies

Selection and application of accounting policies

10 **In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is useful to existing and potential equity investors, lenders and other creditors in making decisions. To be useful, information must:**

(a) be relevant ~~to the economic decision-making needs of users~~; and

(b) faithfully represent the transaction, other event or condition that it purports to represent. Faithful representation of an economic phenomenon is attained when the depiction is complete, neutral and free from error.[3] ~~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.~~

Changes in accounting policies

14 **An entity shall change an accounting policy only if the change:**

(a) is required by an IFRS; or

(b) results in the financial statements providing ~~reliable and~~ more relevant information ~~about~~ that faithfully represents the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Disclosure

29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides ~~reliable and~~ more relevant information that faithfully represents the effects of the transactions, other

[3] In [date] the Board amended the terminology in this paragraph to be consistent with the terminology used in the *Conceptual Framework* issued in 2010.

<u>events or conditions on the entity's financial position, financial performance or cash flows</u>;

(c) **...**

Effective date

54D *Improvements to IFRS* issued in [date] amended paragraphs 10, 14 and 29 and added a footnote to paragraph 10. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted.

Amendment to Basis for Conclusions on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

After paragraph BC33 a heading and paragraph BC34 are added.

Change in terminology to the qualitative characteristics

BC34 In *Improvements to IFRS* issued in [date], the Board considered the effect of changes in terminology introduced in the revised *Conceptual Framework* on the terminology used within IAS 8. IAS 8 provides guidance to help preparers of financial statements develop and apply accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the *Framework*. Because this guidance is essential to the application of IAS 8, in *Improvements to IFRS* issued in [date], the Board updated the paragraphs that refer to the qualitative characteristics for consistency with the updated *Conceptual Framework*.

Appendix C2—Draft wording of the proposed amendment, showing drafting differences from drafting approved by the Board in July 2010 at the ballot draft stage

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 10, 14 and 29 are amended (new text is underlined and deleted text is struck through). A footnote is added to paragraph 10. Paragraph 54~~B~~D is added.

Accounting policies

Selection and application of accounting policies

10 **In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is useful to existing and potential equity investors, lenders and other creditors in making decisions. To be useful, information must:**

(a) be relevant ~~to the economic decision-making needs of users~~; and

(b) faithfully represent the transaction, other event or condition that it purports to represent. Faithful representation of an economic phenomenon is attained when the depiction is complete, neutral and free from error.[4] ~~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.~~

Changes in accounting policies

14 **An entity shall change an accounting policy only if the change:**

(a) is required by an IFRS; or

(b) results in the financial statements providing ~~reliable and~~ more relevant information ~~about~~ that faithfully represents the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Disclosure

29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

[4] In [date] ~~2010~~ the Board amended the terminology in this paragraph to be consistent with the terminology used in ~~the chapters on Objective and Qualitative Characteristics of the~~ *Conceptual Framework* issued in 2010.

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides ~~reliable and~~ more relevant information <u>that faithfully represents the effects of the transactions, other events or conditions on the entity's financial position, financial performance or cash flows</u>;

(c) ...

Effective date

54~~B~~D ~~*Amendments to IAS 8*~~ *Improvements to IFRS* issued in [date] ~~2010~~ amended paragraphs 10, 14 and 29 and added a footnote to paragraph 10. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. ~~If an entity applies the amendments for an earlier period it shall disclose that fact.~~

Amendment to Basis for Conclusions on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

After paragraph BC33 a heading and paragraph BC34 are added.

Change in terminology to the qualitative characteristics

BC34 In ~~*Amendments to IAS 8*~~ <u>*Improvements to IFRS*</u> issued in [date] ~~2010~~, the Board considered the effect of changes in terminology introduced in the revised conceptual framework on the terminology used within IAS 8. ~~The Board and the US Financial Accounting Standards Board are jointly developing a new conceptual framework on financial reporting. As part of that project, the boards adopted in April 2010 new terminology for some of the qualitative characteristics of financial reporting.~~ IAS 8 provides guidance to help preparers of financial statements develop and apply accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the *Framework*. Because this guidance is essential to the application of IAS 8, in <u>*Improvements to IFRS*</u> ~~*Amendments to IAS 8*~~ issued in [date] ~~2010~~, the Board updated the paragraphs that refer to the qualitative characteristics for consistency with the updated <u>*Conceptual*</u> *Framework*.