

STAFF PAPER

18 February – 22 February 2013

Board Meeting

Project	Conceptual Framework		
Paper topic	Draft discussion paper Purpose and status of the Conceptual Framework		
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This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

Purpose and status of the Conceptual Framework**What does this section cover?**

This section describes the purpose and status of the Conceptual Framework.

Why is this section important? What problems will this section help address?

This section is important because it:

- Explains how the IASB will use the Conceptual Framework;
- Describes the interaction between the Conceptual Framework and IFRSs.

What are the staff recommendations¹?

- The primary purpose of the Conceptual Framework is to assist the IASB in the development of future IFRSs and its review of existing IFRSs.
- The Conceptual Framework may also assist preparers of financial statements in developing accounting policies for transactions or events not covered by

¹ In the final discussion paper this section will be replaced by a section outlining the IASB's preliminary views.

existing standards.

- Nothing in the Conceptual Framework should override the requirements of specific IFRSs.
- In rare circumstances, the IASB may decide it needs to depart from some aspects of the Conceptual Framework, in order to meet the objective of financial statements. Where this is the case, the IASB will clearly state that it has departed from the Framework and explain why.

Purpose of the conceptual framework

1. The existing Conceptual Framework describes its purpose as:
 - (a) to assist the IASB in the development of future IFRSs and in its review of existing IFRSs;
 - (b) to assist the IASB in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRSs;
 - (c) to assist national standard-setting bodies in developing national standards;
 - (d) to assist preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of an IFRS;
 - (e) to assist auditors in forming an opinion on whether financial statements comply with IFRSs;
 - (f) to assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with IFRSs; and
 - (g) to provide those who are interested in the work of the IASB with information about its approach to the formulation of IFRSs.
2. The IASB believe that a long list of possible uses of the Conceptual Framework is unhelpful when developing a revised Conceptual Framework. Instead this discussion paper proposes that the primary purpose of the revised Conceptual Framework should be to assist the IASB in the development of future IFRSs and in its review of existing IFRSs. The IASB believes focusing on those needs will help to define what is (and is not) included in the revised Framework.

3. In addition, the Conceptual Framework also plays an important role when existing IFRSs do not deal with a particular transaction or event. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that preparers should consider the Conceptual Framework when developing accounting policies for transactions or events not covered by existing standards. Consequently, the IASB proposes that the revised Conceptual Framework should state that the Conceptual Framework may also assist preparers of financial statements in developing accounting policies for transactions or events not covered by existing standards.

4. Although it is not its purpose, the revised Conceptual Framework may also:
 - (a) Assist national standard-setting bodies in developing national standards;
 - (b) Assist auditors and regulators in forming an opinion on whether financial statements comply with IFRSs;
 - (c) Assist users of financial statements in interpreting the information contained in the financial statements;
 - (d) Provide those who are interested in the work of the IASB with information about its approach to developing IFRSs.

5. The IASB believe that any standards developed in accordance with a revised Conceptual Framework would provide a basis for reducing the number of alternative accounting treatments permitted by IFRSs. Consequently, the purpose of the Conceptual Framework described in paragraph 1(b) above is unnecessary.

Status of the Conceptual Framework

6. The existing Conceptual Framework is not an IFRS and does not override any specific IFRS. This discussion paper does not propose to change this position.

7. In a limited number of cases, there may be a conflict between the Conceptual Framework and an IFRS. Where there is a conflict, the requirements of the IFRS prevail over the Conceptual Framework. However, because the Conceptual Framework will guide the IASB when it develops new IFRSs and reviews existing IFRSs, the number of conflicts between the Conceptual Framework and IFRSs will diminish through time

8. Although the Conceptual Framework should guide the Board when it develops new IFRSs, there may be rare cases when applying some aspects of the Conceptual Framework does not produce financial information about the reporting entity that is useful to the users of the financial statements. For example, the Board may decide that recognising as an asset something that does not meet the definition of an asset would, nevertheless, provide information to the users of financial statements that is useful in making decisions about providing resources to the entity. In such cases, the IASB may decide that it needs to issue a new or revised IFRS that conflicts with that aspect of the Conceptual Framework in order to meet the overall objective of financial statements. If this happens, this discussion paper proposes that the IASB should describe the departure from the Conceptual Framework, and the reasons for it, in the Basis for Conclusions on the IFRS.
9. The IASB will review the Conceptual Framework from time to time in the light of the IASB's experience of working with it.

Question

Question 1

Does the IASB agree that:

- (a) The primary purpose of the Conceptual Framework is to assist the IASB in the development of future IFRSs and in its review of existing IFRSs;
- (b) The Conceptual Framework may also assist preparers of financial statements in developing accounting policies for transactions or events not covered by existing standards;
- (c) In rare cases, the IASB may issue a new or revised IFRS that conflicts with some aspects of the Conceptual Framework. If so, the IASB must describe and explain that departure from the Framework in the basis for conclusions on the IFRS?