

STAFF PAPER

May 2013

IASB Meeting

Project	Conceptual Framework		
Paper topic	Due process and permission to ballot		
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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*.

Purpose

1. This paper:
 - (a) sets out the due process steps undertaken in developing the Conceptual Framework discussion paper (DP);
 - (b) discusses the comment period for the DP;
 - (c) seeks the IASB's permission to ballot the DP.

Background***Purpose of the discussion paper***

2. The Conceptual Framework DP is the IASB's first step towards the publication of a revised Conceptual Framework. The purpose of the DP is to seek input on the issues addressed in the DP. We will consider comments received as we develop an exposure draft of the revised Conceptual Framework.

History of the project

3. In 2004, the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to revise their Conceptual Frameworks. In November 2010, the IASB and FASB (the 'boards') suspended

work on the Conceptual Framework in order to finalise other projects on their agendas. Paragraphs 4 - 6 outline the work carried out jointly by the IASB and FASB.

Objective and Qualitative Characteristics

4. In July 2006 the IASB and FASB issued a Discussion Paper outlining their preliminary views on the *Objective of General Purpose Financial Reporting* and the *Qualitative Characteristics of Useful Financial Information*, the first two new chapters of a revised Conceptual Framework. This was followed by an Exposure Draft in May 2008. Having considered the feedback received the boards finalised two new chapters of the Conceptual Framework in September 2010:
- (a) Chapter 1 - The Objective of General Purpose Financial Reporting; and
 - (b) Chapter 3 - Qualitative Characteristics of Useful Financial Information.¹

These chapters became effective as soon as they were published and now form part of the existing Conceptual Framework.

Reporting Entity

5. In May 2008 the boards issued a Discussion Paper outlining their preliminary views on the *Reporting Entity*. This was followed by an Exposure Draft in March 2010. The boards considered a summary of the comment letters on the Exposure Draft in October 2010 but, in the light of other priorities, work on this chapter was suspended in November 2010.

Other topics

6. The IASB and FASB also had a team working on the definitions of the elements of financial statements. The boards discussed many staff papers in public meetings over a five year period before work on this phase was suspended in 2009. The boards also discussed measurement at joint board meetings and held public roundtable meetings on measurement in London, Hong Kong and Norwalk in 2007.

¹ Chapter 2 was intended to cover the reporting entity concept but was never finalised.

Restarting the project

7. In 2011 and 2012, the IASB carried out a public consultation on its agenda. Many respondents to that consultation identified the Conceptual Framework as a priority project for the IASB. Consequently, the IASB restarted its Conceptual Framework project in 2012. This project is no longer being conducted jointly with the FASB.
8. The revived project focuses on reporting entity, elements, measurement, presentation (including what should be presented in other comprehensive income) and disclosure.
9. The Conceptual Framework DP is the first major consultation document in the revived project. It provides an overview of the issues covered, possible approaches to addressing those issues and, where applicable, the preliminary views of the IASB. In some cases, the IASB will not have formed a view on a particular matter.
10. The IASB has decided not to revisit the chapters of the Conceptual Framework completed in 2010—the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. The IASB is aware that some people would like the IASB to reconsider some aspects of the completed chapters. However:
 - (a) These chapters have been through extensive due process and, in the IASB’s opinion, provide a sound foundation for the rest of the Conceptual Framework;
 - (b) A fundamental reconsideration of these chapters would be time consuming and could lead to unnecessary delays in the finalisation of the revised Conceptual Framework.
 - (c) The IASB has no reason to think that a fundamental reconsideration of chapters 1 and 3 would lead to significant changes, or that any resulting changes would significantly affect the remaining chapters.
11. The IASB acknowledges that it may need to make changes to these chapters if work on the rest of the Conceptual Framework highlights areas that need

clarifying or amending. The completed chapters will be included in the DP so that respondents can see how those chapters and the new material interrelate.

12. Because a Discussion Paper and Exposure Draft have already been issued on the reporting entity, the IASB believe it is unnecessary to include a discussion of the issues associated with the reporting entity in the DP. Instead, the IASB intends that its exposure draft of the Conceptual Framework will include material on the reporting entity, based on the 2010 Exposure Draft and updated in the light of comments received on that Exposure Draft.
13. Feedback received from the Agenda Consultation reinforced the importance of giving priority to this project. Consequently, the IASB believes it should revise the Conceptual Framework without delay. Hence, the IASB aims to complete the revised Conceptual Framework by September 2015. Setting a tight, but achievable, deadline means that the IASB must focus on those changes that will provide clear and significant improvements to the existing Conceptual Framework.

Who will be affected by the proposals in this discussion paper?

14. The primary purpose of the Conceptual Framework is to assist the IASB in the development of future IFRSs and the 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 existing standards.
15. The Conceptual Framework is not an IFRS and does not override the requirements of any IFRS. However, because the IASB will use the Conceptual Framework in developing new IFRSs and revising existing IFRSs, it will have a significant effect on any new or revised IFRSs. A revised Conceptual Framework will also affect parties other than the IASB when new or revised IFRSs are adopted or when new accounting policies are developed for transactions or events outside the scope of existing standards.
16. A finalised revised Conceptual Framework will not necessarily lead to changes to existing IFRSs. Any proposal to change an existing IFRS would need to go through the IASB's normal due process (including a formal decision to add the project to the IASB's agenda).

Development of the discussion paper

Approach to the project

17. In their previous work, the IASB and FASB planned to carry out the revisions to the Conceptual Framework in eight phases. They completed one phase in 2010 by publishing chapters 1 and 3.
18. The phased approach caused difficulties for the IASB and also for people following the IASB's work. Both IASB members and outside parties found it difficult to assess possible approaches to particular areas of the framework without having a clear sense of how each area would fit into the Conceptual Framework as a whole. To overcome this problem, the IASB decided to carry out its remaining work on the Conceptual Framework in one single phase, not in seven separate phases as had been planned previously.

Previous work

19. In developing this discussion paper the IASB has drawn on the extensive public discussions that have already taken place on the Conceptual Framework—In particular, the work on elements, measurement and reporting entity. The IASB has also drawn on the public discussions in several standards-level projects—Financial Statement Presentation (presentation and disclosure), Non-financial Liabilities (measurement and elements), Emission Trading Schemes (elements and unit of account), Leases (elements and unit of account), Revenue Recognition (control), Liabilities/Equity (elements) and Financial Instruments (measurement), to name a few. These projects have included discussion of conceptual issues, as the IASB has strived to develop consistent concepts across the projects.

Board meetings

20. In addition to the IASB meetings held before the project was suspended in 2010, the IASB discussed the Conceptual Framework DP at three public meetings in 2013 (a total of 26 hours). The IASB also discussed the Conceptual Framework project at three public education sessions in 2012 and 2013.

External consultation

21. Since restarting the Conceptual Framework project in 2012, the IASB has sought only limited external input on its proposals. As noted above, people following the IASB's work have found it difficult to comment on particular parts of the project without having a clear sense of how each part fits into the whole. Thus, the IASB will undertake more extensive external consultation once it has issued a comprehensive discussion paper.
22. In developing this discussion paper, the IASB has received helpful input from:
 - (a) Its own survey and discussion forum on disclosures held in January 2013; and
 - (b) Research undertaken by the Accounting Standards Board of Japan on the use of other comprehensive income (OCI) in financial statements.

Consultative group

23. The Due Process Handbook states that the IASB normally establishes a consultative group for major projects. The purpose of a consultative group is to provide additional practical experience and expertise. Members of the Accounting Standards Advisory Forum (ASAF) have experience and expertise that is relevant to the Conceptual Framework project. Consequently, the IASB intends to use the ASAF as its Conceptual Framework consultative group.
24. On 8 and 9 April 2013, IASB members and staff met with ASAF and discussed the Conceptual Framework project. ASAF members provided comments on a series of papers that, taken together, comprise a very early draft of the DP.

Comment period

25. The Due Process Handbook states that the comment period for a discussion paper is normally at least 120 days. In favour of a 120 day comment period, the staff note the following:
 - (a) This DP is only a first step in the development of a revised Conceptual Framework. It will help the IASB to identify those areas that require

more research and analysis. Extending the comment period beyond 120 days may not provide any addition insight and may delay the IASB in starting its research and analysis.

- (b) The papers discussed at the February, March and April IASB meetings were very early drafts of sections of the DP. Consequently, it is likely that those with an interest in the project would already be aware of the topics that will be discussed in the DP.

26. However, some members of ASAF and others have suggested a comment period of six months. They believe that respondents may need this extra time to enable them to provide fully considered responses to the proposals in the DP.

Question 1

Should the comment period for the Conceptual Framework DP be 120 days?

Permission to ballot

27. The appendix to this paper summarises the due process steps undertaken so far in developing this discussion paper.

Question 2

Is the IASB satisfied that it has completed all of the steps that are necessary to ensure that the Conceptual Framework DP is likely to meet its purpose?

28. If you are satisfied that you have completed all necessary steps, the staff would like permission to prepare a ballot draft.

Question 3

Do the staff have permission to prepare a ballot draft of the Conceptual Framework DP?

Appendix – Due process steps during the development of the Conceptual Framework DP

General IASB requirements: although not a mandatory step in the due process, the IASB often publishes a Discussion Paper (DP), or sponsors the development of a Research Paper (RP), as its first publication on any major new topic as a vehicle to explain the issue and seek early comment from interested parties. It is normally the first major milestone in a research project. The IASB normally allows a period of 120 days for comment on such papers (Due Process Handbook, paragraphs 4.16–4.19).

Due Process Oversight Committee (DPOC) objective: to satisfy the DPOC that a thorough process was followed in the development of the papers. The DPOC responds to any comments received on the due process that the IASB followed when it developed and published a DP or RP.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Discussion or Research Paper development			
<p>DP developed in public meetings.</p> <p>Or</p> <p>Decision to publish an RP is made in a public meeting, with a clear statement of the extent of the IASB's involvement.</p>	Optional	<p>Meetings held to discuss the topic.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers have been posted in a timely fashion.</p> <p>Decision was supported by a paper and reported in the <i>IASB Update</i>.</p>	<p>The IASB discussed the Conceptual Framework DP at its meetings in November, and December 2012 and January, February, March and April 2013.</p> <p>Website is up to date.</p> <p>Papers for the IASB meetings were posted before each meeting.</p> <p>A summary of the meeting and any preliminary views reached was included in <i>IASB update</i>.</p>
Consultation with the IFRS Advisory Council (the 'Advisory Council') has occurred.	Optional	Discussions with the Advisory Council on the topic.	The Advisory Council have received updates on the progress of the project but have not yet held detailed discussions on the project.
Project-specific updates are sent via email alerts to registered users.	Optional	Frequency of alerts provided.	Not done during development of the DP. We plan to set up project specific updates going forward.
Consultative groups are established depending on the nature of issues and the level of interest among interested parties.	Optional	<p>Argument provided for or against the use of the consultative group.</p> <p>Extent of consultative group meetings that</p>	<p>The Accounting Standards Advisory Forum will act as the IASB's consultative group on the CF project.</p> <p>The ASAF met in April 2013 and discussed the CF project</p>

Step	Required/ Optional	Metrics or evidence	Actions
		have been held. Feedback to the consultative group has been provided.	
Online survey to generate evidence in support of or against a particular approach.	Optional	Survey shown on the IASB website. Number and diversity of respondents. Analysis of the response.	A survey on disclosures was undertaken in December 2012. A survey on other aspects of the Conceptual Framework is not considered necessary at this point.
Outreach meetings to promote debate and hear views on the financial reporting issue that is being examined.	Optional	Schedule of the outreach meetings.	Limited outreach has been undertaken (see paragraph 21)
Public discussions with representative groups.	Optional	Meetings held.	The CF project has been discussed with the following representative groups: <ul style="list-style-type: none"> • GPF (March 2013) • CMAC (March 2013) • ASAF (April 2013)
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	Extent of meetings held and the venues where issues have been discussed.	Not undertaken at this stage.
Podcasts to provide interested parties with high level updates or other useful information about the specific project.	Optional	Number of podcasts. Number of participants on podcasts.	Podcasts on the project have been made available on the IASB website following each IASB meeting.
Publication			
DP or RP has appropriate comment period.	Required	The IASB has set the comment period. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved.	To be discussed at the May 2013 IASB meeting.
Press release to announce publication of the DP.	Optional	Release was announced in a timely fashion.	Planned

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
		Media coverage of the release.	
Snapshot document to explain the rationale and basic concepts included in the DP.	Optional	Snapshot prepared at the time of the release.	Planned
Webcast of interactive presentations streamed in real time from the IASB's office.	Optional	Number of webcasts held.	Planned
The IASB determines if focused investor consultation is required to supplement the comment letters.	Required if DP issued	Staff Paper.	Planned
Request for additional comment and suggestions by conducting fieldwork.	Optional	Meetings held.	Field work is not considered necessary for this project.
Round-table meetings between external participants and members of the IASB.	Optional	Number of participants in round-table meetings and venues for the round-table meetings confirmed.	Planned