

STAFF PAPER

March 2014

IASB Meeting

Project	Conceptual Framework		
Paper topic	Feedback summary: purpose and status of the <i>Conceptual Framework</i>		
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Purpose of paper

1. This paper summarises the feedback received on the discussion of the purpose and status of the *Conceptual Framework* in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.
2. This paper provides a high level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Overview

3. In summary:
 - (a) some respondents agreed that the primary purpose of the *Conceptual Framework* is to assist the IASB to develop or revise Standards. However, many respondents thought that this view risks understating the role of the *Conceptual Framework*.
 - (b) many respondents also agreed with the IASB's preliminary view that in rare cases, a new or revised Standard may conflict with aspects of the *Conceptual Framework*.

Structure of paper

4. This paper is structured as follows:
 - (a) purpose of the *Conceptual Framework* (paragraphs 5–14); and
 - (b) status of the *Conceptual Framework* (paragraphs 15–24).

Purpose of the *Conceptual Framework*

Background

5. The IASB's preliminary view was that the primary purpose of the revised *Conceptual Framework* is to assist the IASB by identifying concepts that it will use consistently when developing and revising Standards. This would be more focused than the existing *Conceptual Framework*, which includes a long list of possible users of the *Conceptual Framework*.
6. The Discussion Paper noted that the *Conceptual Framework* may also assist parties other than IASB to:
 - (a) understand and interpret existing Standards; and
 - (b) develop accounting policies when no Standard specifically applies to a particular transaction or event.

Summary of feedback

7. About half of the respondents commented on the purpose of the *Conceptual Framework*.
8. Many respondents thought that the suggestion in the Discussion Paper that the IASB is the primary user of the *Conceptual Framework* undermines or understates the fact that preparers use the *Conceptual Framework* through the hierarchy of pronouncements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
9. Some respondents cited other reasons why the *Conceptual Framework* is important to parties other than the IASB:

- (a) the *Conceptual Framework* facilitates a common understanding of basic principles or concepts of financial reporting among all those who use the Standards.
 - (b) focusing on the IASB as the primary user of the *Conceptual Framework* is likely to reduce the prominence or importance of this document to other parties. For example:
 - (i) auditors and regulators consider the *Conceptual Framework* when assessing the judgements made by preparers; and
 - (ii) the IFRS Interpretations Committee uses the *Conceptual Framework* when developing Interpretations.
 - (c) a *Conceptual Framework* that is a purely ‘technical document’ may not comply with the IFRS Foundation’s objective to promote and facilitate the adoption of IFRS through convergence of national accounting standards and IFRS.
 - (d) the *Conceptual Framework* is a ‘behavioural code’ that all parties should abide by.
10. Some respondents (including a securities regulator and many accounting firms) who agreed that the primary user of the *Conceptual Framework* should be the IASB cited the following reasons:
- (a) the IASB has developed more comprehensive guidance since the original *Framework*. Consequently, there are fewer instances when parties other than the IASB will use the *Conceptual Framework* to interpret Standards;
 - (b) it supports the view that the *Conceptual Framework* is not a Standard and does not override Standards; and
 - (c) it will ensure that the IASB focuses on conceptual issues when developing the *Conceptual Framework* and not a codification of current practice.

Restricting the use of some aspects of the Conceptual Framework

11. The Discussion Paper suggested that some aspects of the *Conceptual Framework* should be only for the IASB’s use as it develops new or revised Standards.

12. Some respondents agreed with that view because they thought that some aspects of the *Conceptual Framework* should not be used by preparers (other than to help them understand standard-setting decisions). Examples given were the assessment of cost-benefit and the determination of what should be recorded in other comprehensive income (OCI).
13. Some respondents disagreed with the IASB's suggestion, especially with the example given that only the IASB should determine what should be recorded in OCI. They did not think that there was any conceptual reason why the guidance in the *Conceptual Framework* is not applicable to all parties. A few respondents noted that they did not think that the determination of what should be recorded in OCI was an issue because IAS 1 *Presentation of Financial Statements* requires entities to recognise all income and expense in profit or loss unless otherwise specified in individual Standards, and the proposals in the *Conceptual Framework* do not override the requirements in the Standards.
14. A few respondents suggested that if the IASB intended to restrict the use of some guidance in the *Conceptual Framework*, that restriction should be reflected within Standards rather than in the *Conceptual Framework*.

Status of the *Conceptual Framework*

Background

15. The IASB suggested retaining the existing status of the *Conceptual Framework* – that is, the *Conceptual Framework* is not a Standard and does not override any Standard.
16. In addition, the IASB suggested that in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the *Conceptual Framework*. If this happens the IASB would describe the departure, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Summary of feedback

17. About half of the respondents commented on the status of the *Conceptual Framework*.

18. Many respondents agreed that the *Conceptual Framework* should not be a Standard and should not override the requirements in Standards. However, some respondents thought the *Conceptual Framework* should be considered akin to a constitution, ie it should be at the top of the hierarchy and override any Standards that conflict with it.
19. Many respondents also agreed with the IASB’s preliminary view that in rare cases, a new or revised Standard may conflict with **aspects** of the *Conceptual Framework*. Their reasons are:
- (a) conceptual thinking or the economic environment may change, and the IASB would need to develop or revise Standards that reflect that new thinking. The *Conceptual Framework* may need to be updated later to keep pace with those changes.
 - (b) when developing or revising Standards, the IASB may need to balance the different qualitative characteristics, for example, understandability and timeliness.
20. Respondents also agreed that any departure from aspects of the *Conceptual Framework* should be explained in the Basis for Conclusions because that is more transparent:
- ... it will be important for the IASB to explain, at all stages of its due process ... why it has elected to depart from the Conceptual Framework and specifically invite constituents to provide comments on that aspect of the proposals. It would also be helpful for the related effects analysis to highlight the evidence the IASB has relied on to reach its conclusion that following the Conceptual Framework is expected to lead to a sub-optimal outcome. *International Federation of Accountants (IFAC)*
21. Some respondents thought that the IASB should never develop Standards that conflict with the *Conceptual Framework*. They gave the following reasons:
- (a) departure from the *Conceptual Framework* would cast doubt on the quality and breadth of the *Conceptual Framework*.

- (b) the *Conceptual Framework* should outline the normative thinking or the foundation of financial reporting. The *Conceptual Framework* should be akin to a constitution for developing laws.
 - (c) the IASB should not develop Standards that depart from concepts that have been previously agreed because this would undermine the consistency of its Standards.
22. Some respondents thought that the idea that the IASB would need to depart from the *Conceptual Framework* was redundant. This is because they thought that the IASB could balance the qualitative characteristics and the cost constraint to meet the overall objective of financial reporting. However, a few respondents thought that departure from the *Conceptual Framework* should only be made for cost-benefit reasons.
23. A few respondents stated that there should not be a presumption that the IASB would depart from aspects of the *Conceptual Framework* only in rare cases. They thought that a *Conceptual Framework* based on that presumption would not contain aspirational principles and would be too pragmatic.

IAS 8 hierarchy

24. A few respondents provided the following additional comments related to application of the *Conceptual Framework* through the IAS 8 hierarchy:
- (a) there should be a ban on using by analogy any Standards that conflict with the guidance in the *Conceptual Framework*; and
 - (b) because the IASB has developed more comprehensive Standards since the original *Framework* was issued, the IASB should consider whether the hierarchy of pronouncements in IAS 8 is still needed.