STAFF PAPER

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REG IASB Meeting

Project	**Conceptual Framework**
Paper topic	Proposed amendments – Updating references to the *Framework*

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Purpose of this paper

1. A number of existing Standards refer directly to the *Framework for the Preparation and Presentation of Financial Statements* (or to the *Framework*). The purpose of this paper is to discuss whether those Standards should be updated to refer to the revised *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*').

Analysis

2. As discussed in Agenda Paper 10C, the staff carried out a review of the existing Standards for potential inconsistencies with the concepts that the IASB has tentatively decided to include in the *Conceptual Framework* Exposure Draft. In the course of this review, it has come to the staff's attention that some Standards refer directly to the *Framework for the Preparation and Presentation of Financial Statements* (or the *Framework*).

3. In 2010 the IASB replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for Financial Reporting*. The main text of the existing Standard was not amended to reflect this change in the title of the *Conceptual Framework.* As part of editorial corrections, clarifying footnotes were included after some, but not all, references to the *Framework*. Most of the footnotes state:

References to the *Framework* are to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework with the Conceptual Framework for Financial Reporting.*

4. After the revised *Conceptual Framework* is issued, it may be unclear which version of the framework document should be referred to:

   (a) the IASC's *Framework for the Preparation and Presentation of Financial Statements*;

   (b) the *Conceptual Framework for Financial Reporting* as issued in September 2010; or

   (c) the revised *Conceptual Framework for Financial Reporting*.

5. Replacing references to the *Framework for the Preparation and Presentation of Financial Statements* with references to the *Conceptual Framework for Financial Reporting* (and accordingly references to the *Framework* with references to the *Conceptual Framework*) in the text of the Standards:

   (a) could help to improve clarity and readability of the Standards;

   (b) would help to avoid having two (or even three) co-existing versions of the framework document.

6. In addition, the staff note that in some jurisdictions the footnotes added after the *Conceptual Framework* was issued in 2010 have not been endorsed. Consequently, the references to the *Framework* can still be read to refer to the pre-2010 *Framework*, which may be misleading especially for Standards that require entities to make decisions on accounting policies on the basis of the *Conceptual Framework* (for example, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

7. The Appendix in this Agenda Paper provides a summary of references to the *Framework* in Standards and staff proposals for their amendment.[1] You should note:

(a) The staff do **not** propose updating the references in IAS 11 *Construction Contracts*, IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. From January 2017 they will be superseded by IFRS 15 *Revenue from Contracts with Customers*, so the benefits of any amendments are limited.

(b) The staff do propose replacing the references in:

(i) IFRS 3 *Business Combinations*;

(ii) IFRS 6 *Exploration and Evaluation of Mineral Resources*;

(iii) IAS 34 *Interim Financial Reporting*;

(iv) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*; and

(v) SIC-32 *Intangible Assets—Web Site Costs*.

Arguably, by introducing references to the revised definitions of an asset and a liability and/or the revised guidance on recognition, we could change the requirements of those Standards or Interpretations. However, we do not expect that amending the references would have a significant effect in practice. As noted in May 2014, the IASB's aim in revising the definitions of an asset and a liability and the recognition criteria is to provide more clarity, not to broaden or narrow the range of recognised assets and recognised liabilities. In addition, the staff note that leaving the existing references would effectively mean that several versions of the framework document would exist at the same time.

(c) in the Introduction of IFRS 4 *Insurance Contracts*, the staff propose replacing the reference to the *Framework* with a reference to the *Conceptual Framework.* IFRS 4 exempts insurers from applying the *Framework* in selecting accounting policies for insurance contracts

[1] The Appendix does not include references to the *Framework* in IAS 1*Presentation of Financial Statements* and IAS 8. Proposed amendments to these Standards are discussed in Agenda Paper 10G.

when they exempt them from the requirements of paragraphs 10–12 of IAS 8. Agenda Paper 10G proposes replacing the reference to the *Framework* with a reference to the *Conceptual Framework* in IAS 8.

(d) Several Interpretations, ie IFRIC 12 *Service Concession Arrangements*, IFRIC 18 *Transfers of Assets from Customers* and IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, name the *Framework* as a reference. We do not propose amending these references because they should state which version of the *Framework* those Interpretations are based on.

8. Although the staff do not expect the change to have a significant effect, we recommend that the transition period for the proposed amendments should be at least 18 months, in line with that confirmed by the IASB in July 2014 (see Agenda Paper 10I *Transition and effective date*). Also, as discussed in the July 2014 Agenda Paper 10I, any changes should be applied retrospectively in accordance with IAS 8. However, to avoid any possible need to restate previous business combinations, the staff propose that the amendments to IFRS 3 should be applied prospectively.

9. Please note that the Appendix includes only those references to the *Framework* that are in the main text of the Standards. If the IASB decides to update the references, the staff will also review whether it would be appropriate to update some references in the Implementation Guidance on the Standards affected and to explain the amendments in the Bases for Conclusions.

Question for the IASB

Do you agree to replace the existing references to the *Framework for the Preparation and Presentation of Financial Statements* (or to the *Framework*) with references to the *Conceptual Framework for Financial Reporting* (or to the *Conceptual Framework*) to the extent proposed in paragraph 7 of this Agenda Paper?

Appendix – Staff proposals for updating references to the *Framework* in the main text of Standards[2]

IFRS	Existing text	Staff proposals
IFRS 3 *Business Combinations*	11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework*[2] *for the Preparation and Presentation of Financial Statements* at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs. 2 IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	The staff recommend replacing the reference to the *Framework for the Preparation and Presentation of Financial Statement* with a reference to the *Conceptual Framework for Financial Reporting* and deleting the related footnote. In order to avoid restating previous business combinations, the staff propose that the amendment to this Standard should be applied prospectively, with transition requirements based on Appendix B of IFRS 3.
IFRS 4 *Insurance Contracts*	IN4 The IFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the *Framework*[1] in selecting accounting policies for insurance contracts. However, the IFRS: (a) prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalisation provisions). (b) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets. (c) requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.	The staff recommend replacing the reference to the *Framework* with a reference to the *Conceptual Framework* in paragraph IN4 of the Introduction to IFRS 4 and deleting the related footnote. The Standard itself does not refer directly to the *Framework*. It exempts insurers from applying the *Framework* in selecting accounting policies for insurance contracts when they exempt them from the requirements of paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In Agenda Paper 10H we propose replacing the reference to the *Framework* with a reference to the *Conceptual Framework* in IAS 8, so the amendment proposed in this paragraph would be an indirect effect of that change. This should not lead to any unintended consequences, because insurers will continue to use their existing accounting policies instead of developing new ones based on the guidance in the *Conceptual Framework* until the Insurance project is completed.

[2] The Appendix does not include references to the *Framework* in IAS 1 and IAS 8. Proposed amendments to these Standards are discussed in Agenda Paper 10G.

IFRS	Existing text	Staff proposals
	[1] The reference to the *Framework* is to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	
IFRS 6 *Exploration for and Evaluation of Mineral Resources*	10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework* [1] and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development. [1] The reference to the *Framework* is to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	The staff recommend replacing the reference to the *Framework* with a reference to the *Conceptual Framework* and deleting the related footnote. This paragraph refers both to the *Framework* and to IAS 38. In case of an inconsistency between the Standard and the revised *Conceptual Framework*, the guidance in IAS 38 will have precedence.[3]
IAS 11 *Construction Contracts*	**Objective** The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed. This Standard uses the recognition criteria established in the *Framework for the Preparation and Presentation of Financial Statements* [1] to determine when contract revenue and contract costs should be recognised as revenue and expenses in the statement of comprehensive income. It also provides practical guidance on the application of these criteria. [1] IASC's *Framework for the Preparation and Presentation of Financial Statements* was adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	No amendments proposed because from 1 January 2017 this Standard will be superseded by IFRS 15 *Revenue from Contracts with Customers*.

[3] In April 2014 the IASB tentatively reconfirmed the existing status of the *Conceptual Framework*; that is, the *Conceptual Framework* is not a Standard and does not override the requirements of specific Standards.

<table>
<tr><th>IFRS</th><th>Existing text</th><th>Staff proposals</th></tr>
<tr><td>IAS 18
Revenue</td><td><u>Objective</u>

Income is defined in the Framework for the Preparation and Presentation of Financial Statements [1] as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

[1] IASC's Framework for the Preparation and Presentation of Financial Statements was adopted by the IASB in 2001. In September 2010 the IASB replaced the Framework with the Conceptual Framework for Financial Reporting.</td><td>No amendments proposed because from 1 January 2017 this Standard will be superseded by IFRS 15 Revenue from Contracts with Customers.</td></tr>
<tr><td>IAS 34 Interim Financial Reporting</td><td>31 Under the Framework for the Preparation and Presentation of Financial Statements (the Framework),[3] recognition is the 'process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition'. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

[3] IASC's Framework for the Preparation and Presentation of Financial Statements was adopted by the IASB in 2001. In September 2010 the IASB replaced the Framework with the Conceptual Framework for Financial Reporting.

32 For assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify as interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. The</td><td>This paragraph includes direct quotes from the Framework for the Preparation and Presentation of Financial Statements. The staff recommend:

(a) replacing the reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting and deleting the existing footnote; and

(b) updating the quotes used with quotes based on the Conceptual Framework Exposure Draft.

The staff believe that updating the reference and the quotes will not change the substance of those paragraphs and will not lead to unintended consequences.</td></tr>
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IFRS	Existing text	Staff proposals
	Framework says that 'expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably… [The] *Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.'	
IFRIC 18 *Transfers of Assets from Customers*	9 When an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the *Framework*. Paragraph 49(a) of the *Framework*[2] states that 'an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.' In most circumstances, the entity obtains the right of ownership of the transferred item of property, plant and equipment. However, in determining whether an asset exists, the right of ownership is not essential. Therefore, if the customer continues to control the transferred item, the asset definition would not be met despite a transfer of ownership. 2 now paragraph 4.4(a) of the *Conceptual Framework*	The paragraph includes a direct quote of an asset definition from the *Framework*. The staff recommend: (a) replacing the reference to the *Framework* with a reference to the *Conceptual Framework* and deleting the existing footnote; and (b) replacing the definition of an asset with the updated definition in the *Conceptual Framework* Exposure Draft. The requirement for control is retained in the revised definition, so the staff think that the substance of the paragraph will not change as a result of the proposed amendment.
SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	6 The definitions and guidance in paragraphs 49–64 of the *Framework*[1] shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the Entity include: 1 The reference to the *Framework* is to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraphs 49–64 are now paragraphs 4.4–4.19 of the *Conceptual Framework*.	This paragraph refers to the guidance on definitions of an asset and a liability in the existing *Conceptual Framework*. The staff think that it is not feasible to continue to refer entities to this guidance when the *Framework* is superseded by the revised version, because it would mean having several co-existing versions of the *Framework*. Consequently, the staff recommend replacing the reference to the *Framework* with a reference to the *Conceptual Framework* and updating the reference to the specific paragraphs as well as deleting the related footnote. The staff do not anticipate that the proposed amendment would change the substance of the requirements in this paragraph. SIC-27 provides indicators to help determine whether a separate investment account and lease payment obligations represent assets and liabilities of the entity. These indicators would have precedence over the revised *Conceptual Framework*. Please, note that this amendment might be effective for only a short period depending on the effective date of any new Standard on leases.

IFRS	Existing text	Staff proposals
SIC-32 *Intangible Assets – Web Site Costs*	5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.88 and the *Framework* [1] when the services are received. [1] The reference to the *Framework* is to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	The staff believe that this paragraph should refer to the updated guidance on recognition when the revised *Conceptual Framework* is issued. We recommend replacing the reference to the *Framework* with the reference to the *Conceptual Framework* and deleting the existing footnote. The staff think that the risk of unintended consequences due to the proposed amendment is low because the guidance on expense recognition in the Exposure Draft is not going to be substantially different from the existing guidance.
IFRIC 12 *Service Concession Arrangements*, IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, IFRIC 18 *Transfers of Assets from Customers*[4]	**References** • *Framework for the Preparation and Presentation of Financial Statements*[1] [1] In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.	The staff do not propose amending these references because they make it clear which version of the *Framework* those Interpretations are based on.

[4] From 1 January 2017 IFRIC 18 will be superseded by IFRS 15 *Revenue from Contracts with Customers.*