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STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Feedback summary—Effects of the proposed changes to the *Conceptual Framework* and the Exposure Draft *Updating References to the Conceptual Framework*		
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Purpose of paper

1. This paper summarises the feedback received on:

   (a) the discussion of the effects of the proposed changes to the *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework*') in the Basis for Conclusions on the Exposure Draft *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework* ED'); and

   (b) a separate Exposure Draft *Updating References to the Conceptual Framework* ('the *Updating References* ED') which was issued by the Board alongside the *Conceptual Framework* ED to support future transition to the revised *Conceptual Framework*.

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.

Summary of key messages

3. There was a mixed response to the analysis of inconsistencies between existing IFRS Standards and the proposals for a revised *Conceptual Framework* that was provided in the Basis for Conclusions on the *Conceptual Framework* ED:

   (a) some respondents agreed with the Board's analysis of inconsistencies;

   (b) many suggested other possible inconsistencies; and

   (c) some encouraged the Board to undertake a more comprehensive effects analysis.

4. Many respondents agreed that the revision of the *Conceptual Framework* should not lead to the automatic revision of the Standards. However, some respondents expressed a view that the Board should address all inconsistencies identified.

5. Responses on the *Updating References* ED were as follows:

   (a) most respondents supported the proposal to replace references to the *Framework for the Preparation and Presentation of Financial Statements* ('the *Framework*') so that the Standards refer to the revised *Conceptual Framework* when it is issued. However, some respondents expressed concerns about potential unintended consequences and asked for a comprehensive effects analysis of the proposals; and

   (b) most respondents agreed with the proposed transition provisions and effective date.

Structure of paper

6. This paper summarises comments on:

   (a) the effects of the proposed changes to the *Conceptual Framework*:

      (i) analysis of inconsistencies (paragraphs 10–14);

      (ii) dealing with inconsistencies (paragraphs 15–21);

      (iii) transition for the Board and the IFRS Interpretations Committee (paragraphs 22–23); and

(b) the proposals in the *Updating References* ED:

(i) updating references in other Standards and Interpretations (paragraphs 29–33); and

(ii) transition and effective date (paragraphs 34–41).

Effects of proposed changes to the *Conceptual Framework*

Proposals in the Conceptual Framework *ED (paragraphs BCE.1–BCE.31)*

7. The invitation to comment on the *Conceptual Framework* ED discussed the effects of the proposed changes to the *Conceptual Framework*. It stated that:

(a) the *Conceptual Framework* is not a Standard and does not override specific Standards, so the proposed changes to the *Conceptual Framework* will not have an immediate effect on the financial statements of most reporting entities.

(b) the Board will not automatically change existing Standards as a result of the changes to the *Conceptual Framework*. If an existing Standard works well in practice, the Board will not propose an amendment to that Standard simply because of an inconsistency with the revised *Conceptual Framework*. Any decision to amend an existing Standard would require the Board to go through its normal due process for adding a project to its agenda and developing an Exposure Draft and an amendment to that Standard.

(c) Entities that could be affected are those that need to use the *Conceptual Framework* to develop or select accounting policies when no Standard specifically applies to a transaction.[1] The *Updating References* ED addresses transition for these entities (paragraphs 24–27).

8. The Basis for Conclusions on the *Conceptual Framework* ED:

[1] If no Standard specifically applies to a transaction, paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider the *Conceptual Framework* in developing and applying an accounting policy for that transaction. IAS 1 *Presentation of Financial Statements* requires entities to produce financial statements that provide a fair presentation of the entity's financial position, financial performance and cash flows.

(a) explained that the Board had reviewed existing and proposed Standards to identify any inconsistencies with the proposals for a revised *Conceptual Framework* to enable constituents to better understand the implications of the proposals;

(b) identified the following main inconsistencies:

   (i) some of the classification requirements in IAS 32 *Financial Instruments: Presentation*; and

   (ii) the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted in IFRIC 21 *Levies*.

(c) identified a number of minor inconsistencies;

(d) proposed that the Board and the IFRS Interpretations Committee should start using the revised *Conceptual Framework* immediately once it is published. It noted that when the IFRS Interpretations Committee is faced with an inconsistency between a Standard and the concepts in the revised *Conceptual Framework* it is required by the *IASB and IFRS Interpretations Committee Due Process Handbook* to refer the issue to the Board.

Summary of feedback

9. Question 15 of the invitation to comment on the *Conceptual Framework* ED asked respondents whether they agree with the analysis of inconsistences in paragraphs BCE.1–BCE.31 and whether the Board should consider any other effects of the proposals in the *Conceptual Framework* ED. Fewer than half of the respondents to the *Conceptual Framework* ED answered the question.

Analysis of inconsistencies

10. Some respondents agreed with the analysis of inconsistencies included in the Basis for Conclusions on the *Conceptual Framework* ED without additional comments.

11. A few respondents expressed a view that it is too early in the process to analyse inconsistences between the Standards and the revised *Conceptual Framework*.

12. Many respondents, including standard-setters, accountancy bodies, accounting firms, regulators and preparers and their representative bodies, suggested other possible

inconsistencies with the proposals in the *Conceptual Framework* that the staff will consider when developing future papers.

13. Some respondents, representing a broad cross-section of geographical regions and types of respondent, encouraged the Board to undertake a more extensive effects analysis so that both the Board and constituents could better assess possible implications for future IFRS Standards. They encouraged the Board to do one or both of the following:

    (a) perform field testing on the proposals in the *Conceptual Framework* ED. This view was often expressed in relation to changes in the definitions of elements, especially the definition of a liability and new guidance on what is a present obligation.

    (b) provide a Standard-by-Standard analysis of possible inconsistencies with the revised *Conceptual Framework* and develop a strategy for dealing with those inconsistencies.

14. Finally, a few individuals suggested that the Board should:

    (a) consult international regulators about how they will be affected by the proposed amendments; and

    (b) perform an analysis of empirical evidence of the usefulness of various measurement bases. It would help to identify the basis that provides the most useful information and inform, but not pre-empt, Standards-level decisions.

Dealing with inconsistencies

15. Consistently with the comments received on the status of the *Conceptual Framework* (see AP10 *Feedback summary—Overview*), the comments on the immediate effects of publishing the revised *Conceptual Framework* and whether identified inconsistencies should be addressed were mixed.

16. Many respondents, including many accountancy bodies, standard-setters and preparers and their representative bodies from all regions, agreed that the revision of the *Conceptual Framework* should not lead to the automatic revision of the Standards (especially if they work well in practice) and that any decision to amend an existing

Standard should require the Board to go through its normal due process. A few suggested that the Board should also:

(a) explain how existing Standards will coexist with the revised *Conceptual Framework*;

(b) assess, but not necessarily amend, inconsistencies on a timely basis;

(c) consider inconsistencies that were identified in the *Conceptual Framework* ED or suggested by constituents when assessing the strength of the proposed concepts; and

(d) consider an extended period of calm (three to five years) once the *Conceptual Framework* and other major projects are issued.

One user representative body expressed concern that there is no clear policy for dealing with inconsistencies—the decision seems to be left to the Board's discretion.

17. Some respondents, most of whom represented Latin America and Asia-Oceania, expressed a view that the Board should address all inconsistencies identified between the Standards and the revised *Conceptual Framework*. They argued that the inconsistencies should be revised for the following reasons:

(a) to avoid potential divergence in application;

(b) to retain credibility of the *Conceptual Framework*; and

(c) to ensure consistency between existing and future Standards.

18. These respondents' views on the urgency of such revisions differed:

(a) a few suggested it should be done before finalising the *Conceptual Framework* or as soon as possible after it is published; while

(b) others stated that it could be done over the medium or long term.

19. One individual suggested that all identified inconsistencies should be included as an appendix to the revised *Conceptual Framework*, which would also indicate the Board's preliminary proposals on how the inconsistencies are to be resolved.

20. A preparer representative body and a preparer from Europe urged the Board to address the main identified inconsistencies, while indicating how it will deal with other inconsistencies in the future.

21. A few respondents suggested that the list of inconsistencies should be provided as part of the input into the Agenda Consultation.

Transition for the Board and the IFRS Interpretations Committee

22. Some respondents commented specifically on how the Board and the IFRS Interpretations Committee should start applying the revised *Conceptual Framework*. Most of them agreed that the Board and the Interpretations Committee should start applying the revised *Conceptual Framework* immediately after it is published.

23. A few respondents expressed concern that if the Board does not revise the Standards for inconsistencies with the revised *Conceptual Framework*, it might create difficulties for the IFRS Interpretations Committee when it is faced with an issue that would have a different answer under the revised *Conceptual Framework*. One accounting firm expressed a similar concern in regards to applying the proposed new definitions of the elements. They noted the proposal in the Basis for Conclusions on the *Conceptual Framework* ED that in such cases the IFRS Interpretations Committee would have to refer the issue to the Board, but they suggested that the Board should indicate how it will deal with such situations. One suggestion was that it would have to follow the hierarchy in paragraph 11 of IAS 1 *Presentation of Financial Statements*, ie the requirements of Standards on similar or related issues would prevail over the guidance in the revised *Conceptual Framework*.

Comments on the *Updating References* ED

Proposals in the Updating References *ED*

24. The *Updating References* ED proposed the replacement of references to the *Framework* within two Standards—IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—with references to the revised *Conceptual Framework*. The *Updating References* ED explained that this replacement would

achieve transition to the revised *Conceptual Framework* for entities that use the *Conceptual Framework* to develop accounting policies.

25. To avoid having concurrent versions of the *Conceptual Framework*, the *Updating References* ED also proposed to replace references to the *Framework* in some other Standards and Interpretations. It explained that the Board believed that these changes will not have a significant effect on the requirements of these Standards.

26. For all these changes, the *Updating References* ED proposed to set an effective date that would allow a transition period of approximately 18 months between the issue of the revised *Conceptual Framework* and the effective date for each of the amendments proposed by the *Updating References* ED. This would allow entities to review the effects of the revised concepts on their accounting policies and prepare for application of changes. Early application would be permitted.

27. The *Updating References* ED proposed that the amendments would be applied retrospectively in accordance with IAS 8, except for the proposed amendments to IFRS 3 *Business Combinations*. Amendments to IFRS 3 would be applied prospectively, thereby avoiding the need to restate previous business combinations.

Summary of feedback

28. The 180-day comment period on the *Updating References* ED ended on 25 November 2015. The Board had received 40 comment letters. The Appendix provides a summary by type of respondent and geographical region. In addition, a few respondents to the *Conceptual Framework* ED commented on some or all the questions in the invitation to comment on the *Updating References* ED.

Updating references in other Standards and Interpretations

29. Most respondents supported the proposal to replace references to the *Framework* so as to avoid having several concurrent versions of the *Conceptual Framework*. Many respondents supported the specific proposals in the *Updating References* ED. One standard-setter suggested that it would be helpful to include more arguments from the October 2014 Agenda Paper 10E *Proposed amendments—Updating references to the Framework* in the Basis for Conclusions on the final amendments, to explain why the

proposed changes will not have a significant effect on the requirements of the affected Standards.

30. However, some respondents expressed concerns about potential unintended consequences of the proposals; for example some suggested that the proposed amendments to IFRS 3 could lead to changes to the assets and liabilities qualifying for recognition within the context of a business combination. The staff will consider these comments and suggestions in future papers.

31. Because of these concerns, some respondents, including accounting firms, European standard-setters and a European regulator, suggested that the Board should undertake a comprehensive effects analysis of the proposed amendments to assess whether any material changes will result from replacing references to the *Conceptual Framework* and if so, how to address them. One accounting firm suggested that outreach activities should be conducted to assess and report the likely effects of using the *Conceptual Framework* in developing accounting policies under IAS 8.

32. A few respondents expressed a view that references should be replaced only if they do not affect current practice, ie if they are merely editorial in nature. One Australian preparer representative body suggested that if the replacement of a reference might affect current practice, such changes should be subject to a separate due process once the changes to the *Conceptual Framework* are finalised.

33. A few respondents suggested additional amendments:

    (a) the Board should consider replacing the term ‘income statement’ with the term ‘statement(s) of financial performance’ in all IFRS Standards to align terminology with that used in the *Conceptual Framework* ED.

    (b) the Board should update the definitions of an asset and a liability quoted in other Standards.

    (c) the Board should replace references to ‘reliability’ with references to ‘faithful representation’ following the re-labelling of this qualitative characteristic. Some suggested this change for IAS 8 only. A few respondents suggested that this amendment should be made to all affected Standards no later than the effective date proposed by the *Updating References* ED.

(d) IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be amended to specify which version of the *Conceptual Framework* a first-time adopter should apply when electing to restate a past business combination in accordance with IFRS 3.

Transition and effective date

34. Most of the respondents who supported updating references as proposed in the *Updating References* ED also agreed with the proposed transition provisions.

35. A few respondents suggested that:

(a) some amendments, especially those that amend references to either the definitions of elements or the recognition criteria, should be applied prospectively.

(b) if the proposed amendments are merely editorial in nature, they do not need any transitional provisions. They expressed a view that the inclusion of transitional provisions (with a possible exception of IAS 8) may imply that the proposals could have a significant effect on the requirements of the Standards or give an impression that the *Conceptual Framework* is itself a Standard.

(c) it would be useful to clarify that changes to accounting policies may arise through the *Conceptual Framework*'s interaction with paragraphs 10–11 of IAS 8 rather than because the *Conceptual Framework* directly changes the requirements of Standards that refer to it.

36. Some of those who had asked for an effects analysis stated that they could not form an opinion on the transition provisions until such analysis was performed.

37. One accounting firm expressed an opinion that early application should not be permitted on a Standard-by-Standard basis, ie financial statements cannot be prepared using references partly to the existing *Conceptual Framework* and partly to the revised *Conceptual Framework*.

38. Some respondents commented specifically on proposals to replace references in IAS 1 and IAS 8, which were intended to achieve transition to the revised *Conceptual*

Framework for entities that use the *Conceptual Framework* to develop or select accounting policies. Their comments included the following:

(a) it may be difficult to identify which policies need to be changed, because based on the hierarchy in IAS 8, the application of the *Conceptual Framework* is considered after, and possibly together with, the requirements of other IFRS Standards dealing with similar and related issues. It may be impractical to update accounting policies for one element in a complex judgement, especially if the Board does not update Standards that deal with similar and related issues.

(b) one regulator did not expect the proposed changes to be onerous for entities because they must first rely on existing IFRS requirements dealing with similar or related issues.

(c) an accountancy body suggested that the amendments should refer not directly to the revised *Conceptual Framework* but to paragraphs 10–11 of IAS 8.

(d) retrospective application of amendments to IAS 8 would require entities to account for the facts and circumstances as if the amended guidance existed when the accounting policy under consideration was developed. Because the possible changes are not identified, it is not possible to determine whether retrospective application can and should apply.

39. A few respondents suggested that the Board should consider allowing some form of relief from reassessing existing accounting policies developed by reference to the existing *Conceptual Framework*, ie allow prospective application.

40. One standard-setter recommended that if the Board finalises the amendments as proposed, it should include a reference to the requirements of paragraph 14 of IAS 8 that an entity shall change an accounting policy only if the change:

(a) is required by an IFRS Standard; or

(b) results in the financial statements providing reliable and more relevant information.

The Board should clarify that the amendments should not be considered as falling under (a).

41. Most of the respondents who commented on the effective date agreed to the proposed transition period of approximately 18 months. A few respondents had other suggestions:

(a) to provide a longer transition period of at least two years to allow preparers sufficient time to review their existing accounting policies;

(b) to delay amending the references until the Board revises inconsistent Standards;

(c) to consider what other Standards will become effective around the same time and avoid an effective date that coincides with the effective dates of other major projects;

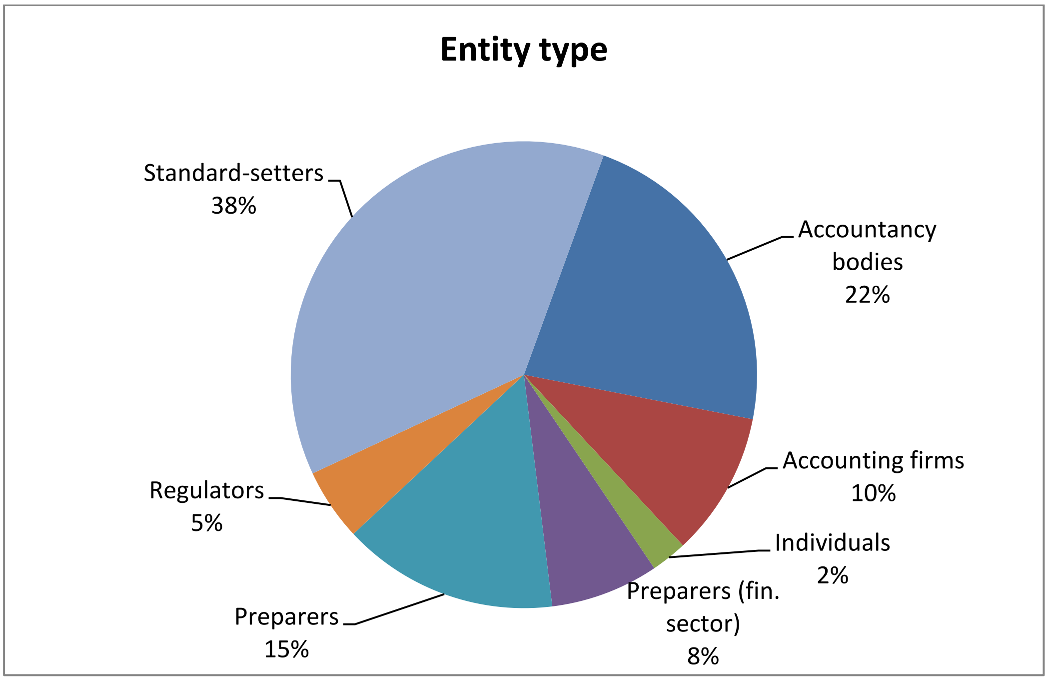
(d) to consider the timing of any likely further amendments to IAS 1 and IAS 8, including any expected amendments arising out of the *Disclosure Initiative*, when setting the effective date for these Standards to limit a piecemeal incorporation of the revised concepts into the Standards; or

(e) to provide a shorter transition period of 12 months for IAS 1 and IAS 8.

Appendix—Demographic information

The following is a graphical summary of the 40 comment letters received on the *Updating References* ED.

This pie chart illustrates the breakdown of comment letters by respondent type:



This pie chart illustrates the breakdown of comment letters by geographical region: