

STAFF PAPER

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IASB Meeting

Project	Conceptual Framework		
Paper topic	Purpose and status of the <i>Conceptual Framework</i>		
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Purpose of paper

1. This paper discusses:
 - (a) the purpose of the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*) (paragraphs 6-9);
 - (b) its status and the approach to dealing with any departures from the *Conceptual Framework* (paragraphs 10-17); and
 - (c) the approach to any future revisions of the *Conceptual Framework* (paragraphs 18-22).

Summary of staff recommendations

2. We recommend that the purpose of the *Conceptual Framework* is to:
 - (a) assist the Board to develop IFRS Standards that are based on consistent concepts;
 - (b) assist preparers to develop consistent accounting policies when no IFRS Standard applies to a particular transaction or event, or when an IFRS Standard allows a choice of accounting policy; and
 - (c) assist all parties to understand and interpret IFRS Standards.

3. We recommend retaining the existing status of the *Conceptual Framework*—that is, the *Conceptual Framework* is not an IFRS Standard and does not override the requirements of specific Standards.
4. We recommend that the Board may sometimes depart from some aspects of the *Conceptual Framework* when setting a Standard, in which case the Board will explain the departure in the Basis for Conclusions accompanying the Standard in question.
5. We recommend that the *Conceptual Framework* states that it will be revised from time to time. In addition we recommend that the Basis for Conclusions on the *Conceptual Framework* provides examples of events and circumstances that could trigger a revision of the *Conceptual Framework*.

Purpose of the *Conceptual Framework*

Exposure Draft proposals

6. The introduction to the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft) states:

IN1 The [draft] *Conceptual Framework for Financial Reporting* (the ‘*Conceptual Framework*’) describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the [draft] *Conceptual Framework* is to:

- (a) assist the International Accounting Standards Board (IASB) to develop Standards that are based on consistent concepts;
- (b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy; and
- (c) assist all parties to understand and interpret the Standards.

7. The Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Discussion Paper) suggested that the *primary* purpose of the *Conceptual Framework* should be to assist the Board by identifying concepts that it will use consistently when developing and revising IFRS Standards. The Discussion Paper then acknowledged that the *Conceptual Framework* may also assist parties other than the Board to understand and interpret IFRS Standards or to develop accounting policies for transactions or events to which no Standard applies. The feedback received on the Discussion Paper suggested that this approach underestimated the importance of the *Conceptual Framework* to parties other than the Board. Hence, the Exposure Draft no longer identifies the Board as the *primary* user of the *Conceptual Framework* and instead identifies the Board, preparers and other parties equally as users of the *Conceptual Framework*.

Feedback from respondents

8. Although the Exposure Draft did not include a question on this issue, some respondents commented on the proposed purpose of the *Conceptual Framework*. Many of those who commented agreed with the proposals in the Exposure Draft. However, a few respondents suggested that, consistent with the approach suggested in the Discussion Paper, the primary purpose of the *Conceptual Framework* should be to help the Board when developing Standards. They argued that focussing on the needs of the Board would produce a more focussed set of concepts. A few respondents expressed the view that the proposed *Conceptual Framework* would be unlikely to assist the Board to develop IFRS Standards.

Staff analysis and recommendation

9. We agree that assisting the Board when developing Standards is an important purpose of the *Conceptual Framework*. However, we do not think that acknowledging other parties as equally important users of the *Conceptual Framework* should prevent the Board from developing focussed and consistent concepts. We note that the *Conceptual Framework* also has an important role to play for preparers in developing and selecting accounting policies in particular circumstances. For example, paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

requires management to consider the *Conceptual Framework* when developing accounting policies when no Standard applies to a particular transaction or event. In addition, the *Conceptual Framework* can help all parties understand and interpret the Standards. We also note that the proposed purpose of the *Conceptual Framework* was supported by many respondents to the Exposure Draft.

Question 1

We recommend confirming the purpose of the *Conceptual Framework* as proposed in the Exposure Draft. That is to:

- (a) assist the Board to develop Standards that are based on consistent concepts;
- (b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy; and
- (c) assist all parties to understand and interpret the Standards.

Do you agree?

Status of and departures from the *Conceptual Framework*

Exposure Draft proposals

IN2 The [draft] *Conceptual Framework* is not a Standard. Nothing in this [draft] *Conceptual Framework* overrides any specific Standards.

IN3 To meet the overall objective of general purpose financial reporting, the IASB may sometimes specify requirements that depart from aspects of the [draft] *Conceptual Framework*. If the IASB does so, it will explain the departure in the Basis for Conclusions on the Standard in question.

10. The proposed status of the *Conceptual Framework* is consistent with its current status.
11. The proposal in the Exposure Draft that allows the Board to depart from aspects of the *Conceptual Framework* is consistent with the suggestions in the Discussion Paper.

Feedback from respondents

12. Although the Exposure Draft did not include a question on this issue, some respondents commented on the proposed status of the *Conceptual Framework*. Many of those respondents agreed that the *Conceptual Framework* should not override any IFRS Standards. However, a few stated that the *Conceptual Framework* should have a higher status than IFRS Standards so that the Board can only set future IFRS Standards that comply with the *Conceptual Framework*.
13. A few respondents commented on and expressed support for the proposal in the Exposure Draft that the Board may sometimes depart from aspects of the *Conceptual Framework* and that any such departures should be explained in the Basis for Conclusions accompanying the respective IFRS Standard. However, a few respondents stated that the Board should never be allowed to depart from aspects of the *Conceptual Framework*.
14. In addition, some respondents commented on how the Board should deal with any conflicts between the finalised *Conceptual Framework* and existing IFRS Standards. Those comments are discussed in Agenda Paper 10B—*Approach to redeliberations* for this month's meeting.

Staff analysis and recommendation

15. We think that the Board should confirm the current status of the *Conceptual Framework*. We note that the existing status of the *Conceptual Framework* has worked well in practice. Also, an explicit statement that the *Conceptual Framework* does not override the requirements of specific Standards would prevent preparers from attempting to inappropriately override Standards which some preparers might see as not compliant with the *Conceptual Framework*. A decision to retain the status of the *Conceptual Framework* would also be responsive to the feedback received on both the Exposure Draft and the Discussion Paper.
16. We note that a few respondents expressed the view that the Board should not be allowed to set future IFRS Standards that deviate from the *Conceptual Framework*. However, we continue to think that in some circumstances the Board may need to

depart from some aspects of the *Conceptual Framework* when developing Standards in order to achieve the objective of financial reporting. This is because:

- (a) Conceptual thinking or the economic environment may change, and the Board might need to develop new or revised Standards to reflect this new thinking.
- (b) Allowing the Board to depart from the *Conceptual Framework* would give the Board the flexibility to develop interim Standards that help meet the objective of financial reporting despite conflicting with aspects of the *Conceptual Framework*.
- (c) The Board might need to balance different qualitative characteristics to meet the overall information needs of users of financial statements.
- (d) The Board might want to include practical expedients in Standards, such as, for example, the low value assets exemption in IFRS 16 *Leases*.

17. We continue to think that if the Board does depart from an aspect of the *Conceptual Framework*, it should explain its reasons for doing so in the Basis for Conclusion on the Standard in question.

Question 2

We recommend confirming that the *Conceptual Framework* is not a Standard and does not override requirements of specific Standards.

Do you agree?

We recommend that, in order to meet the overall objective of financial reporting, the Board should be permitted to depart from some aspects of the *Conceptual Framework*. If the Board does so, it should explain that departure in the Basis for Conclusions on the Standard in question.

Do you agree?

Revisions of the Conceptual Framework

Exposure Draft proposals

IN4 The [draft] *Conceptual Framework* may be revised from time to time on the basis of the IASB's experience of working with it.

18. This proposal is consistent with the suggestion in the Discussion Paper.

Feedback from respondents

19. A few respondents commented on and supported the proposal of updating the *Conceptual Framework* from time to time although the Board did not ask a specific question on this. In addition, as discussed in Agenda Paper 10B, some members of the IFRS Advisory Council also expressed support for the *Conceptual Framework* as a 'living document' that is updated from time to time as the Board's thinking develops. However, other members of the IFRS Advisory Council and the respondents to the Exposure Draft cautioned the Board against making frequent excessive revisions of the *Conceptual Framework*. They were concerned that this might undermine its credibility.

Staff analysis and recommendation

20. The Due Process Handbook identifies the *Conceptual Framework* as one of the Board's standing activities (paragraph 4.20) and we think that it is likely that the Board will need to update the *Conceptual Framework* from time to time. Events and circumstances that could trigger a revision are, for example:
- (a) The Board may gain new knowledge through its research projects. For example, we are already aware that changes to the *Conceptual Framework* may be needed as a result of work done on the *Financial Instruments with the Characteristics of Equity* research project.
 - (b) The Board's conceptual thinking or the economic environment may change.
 - (c) The Board may identify areas for improvement while working with the *Conceptual Framework*.

21. Confirming that the *Conceptual Framework* could be revised from time to time is also consistent with the feedback received on both the Discussion Paper and the Exposure Draft and consistent with the overall direction provided by the IFRS Advisory Council.
22. We think that it would help clarify the intentions of the Board if the Basis for Conclusions provided examples of events and circumstances (discussed in paragraph 20) that could trigger a revision of the *Conceptual Framework*.

Question 4

We recommend that the *Conceptual Framework* states that it will be revised from time to time.

Do you agree?

In addition we recommend that the Basis for Conclusions on the *Conceptual Framework* provides examples of events and circumstances that could trigger a revision of the *Conceptual Framework*.

Do you agree?