

STAFF PAPER

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IASB Meeting

Project	Conceptual Framework		
Paper topic	Approach to redeliberations		
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7246 6410
	Rachel Knubley	rknubley@ifrs.org	+44 (0)20 7246 6904

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Purpose of paper

1. This paper discusses the approach to finalising the *Conceptual Framework for Financial Reporting* (‘the *Conceptual Framework*’) and asks the Board for decisions. In particular, we ask the Board:
 - (a) whether we have correctly identified the areas that require further analysis and discussion—we do not, at this stage, ask for views on what the *Conceptual Framework* should say on those areas; and
 - (b) whether the Board agrees with the staff’s proposed approach to analysing the effects of the revised *Conceptual Framework*.
2. Agenda Papers 10C–10E discuss the approach to redeliberations on the following specific topics:
 - (a) measurement;
 - (b) reporting financial performance; and
 - (c) concepts for liabilities and equity.
3. The approach to finalising the *Conceptual Framework* will also be discussed at the April 2016 meeting of the Accounting Standards Advisory Forum (‘the ASAF’). The staff will provide the Board with an oral update on the ASAF’s advice.

Structure of paper

4. This paper is structured as follows:
 - (a) feedback from the IFRS Advisory Council (paragraphs 5–7);
 - (b) topics for redeliberations (paragraphs 8–9); and
 - (c) effects of the *Conceptual Framework* (paragraph 10–28).

Feedback from the IFRS Advisory Council

5. At the February 2016 meeting of the IFRS Advisory Council, the staff discussed the feedback received on the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft') and asked for advice on finalising the *Conceptual Framework*. In particular, the staff sought advice on the project timetable and whether the Board should:
 - (a) finalise the *Conceptual Framework* without delay;
 - (b) delay finalisation of the *Conceptual Framework* to further develop particular areas such as measurement or reporting financial performance; or
 - (c) finalise the *Conceptual Framework* without particular sections such as measurement or reporting financial performance and take more time to develop those sections further.
6. The IFRS Advisory Council broadly supported finalising the *Conceptual Framework* on a timely basis. The members noted that the proposals in the Exposure Draft represent a significant improvement compared with the existing *Conceptual Framework* and that the revised *Conceptual Framework* is needed without delay. They acknowledged that particular areas, such as measurement, reporting financial performance and the distinction between liabilities and equity, could be developed further. However, they expressed the view that the proposals in the Exposure Draft are a step forward and the Board could revisit and update the *Conceptual Framework* in those areas in the future as necessary.
7. Some members of the IFRS Advisory Council expressed support for the *Conceptual Framework* as a 'living document' that is updated over time as the Board's thinking

develops. Some others cautioned the Board against making frequent excessive revisions to the *Conceptual Framework* because such revisions could undermine the credibility of the *Conceptual Framework*.

Topics for redeliberations

8. The staff propose the Board should focus redeliberations on areas that have been controversial or those where new information has become available. For example, the staff think that the Board should redeliberate the proposals if:
 - (a) many respondents to the Exposure Draft disagreed with or expressed significant reservations about the proposals;
 - (b) some respondents to the Exposure Draft disagreed with the proposals *and* made alternative suggestions or provided arguments that the Board has not considered before;
 - (c) the proposals have caused a Board member to vote against the publication of the Exposure Draft and to express an alternative view;
 - (d) the proposals have been approved by the Board only by a small margin; or
 - (e) there have been new developments since the proposals have been published that make it reasonably possible that the Board could reach different conclusions.

9. The staff’s initial analysis, applying conditions in paragraph 8, has identified for further discussion topics listed in the table below. For topics that do not meet the conditions in paragraph 8, the staff plan, for the most part, to ask the Board to confirm the proposals in the Exposure Draft. However, the staff do not propose undertaking significant additional analysis on those topics.

Chapter 1— <i>The objective of general purpose financial reporting</i>	Stewardship—whether to confirm giving more prominence to stewardship as part of the objective of financial reporting as proposed in the Exposure Draft and whether to discuss ‘decision usefulness’ as a broader concept than just the decisions about buying, selling or holding the entity’s shares.
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<p>Chapter 2— <i>Qualitative characteristics of useful financial information</i></p>	<p>Prudence—whether to confirm the proposed reintroduction in the <i>Conceptual Framework</i> of the notion of prudence, described as the exercise of caution under conditions of uncertainty. In addition, whether to acknowledge that asymmetry in recognition and/or measurement has a role to play in standard-setting.</p> <p>Measurement uncertainty—whether to confirm the discussion of measurement uncertainty as a factor that affects the qualitative characteristic of relevance as proposed in the Exposure Draft, or discuss measurement uncertainty as a factor that affects the qualitative characteristic of faithful representation; and whether to discuss other types of uncertainty.</p>
<p>Chapter 3—<i>Financial statements and the reporting entity</i></p>	<p>Boundary of the reporting entity—to clarify the meaning of the terms direct control and indirect control.</p> <p>Consolidated and unconsolidated financial statements—whether to retain the statement that consolidated financial statements are more likely to provide useful information than unconsolidated financial statements.</p>
<p>Chapter 4—<i>The elements of financial statements</i></p>	<p>Asset and liability definitions—whether to make any amendments to the proposed definitions, in particular to retain the existing references to ‘expected’ inflows or outflows, or to omit the references either to ‘present’ or ‘as a result of past events’.</p> <p>Liabilities and equity—the staff ask the Board to confirm the approach to developing concepts for liabilities and equity proposed in the Exposure Draft in Agenda Paper 10E</p> <p><i>Approach to redeliberations—Concepts for liabilities and equity.</i></p> <p>Income and expenses—whether to confirm the proposed</p>

	removal of guidance on types of income and expenses.
Chapter 5— <i>Recognition and derecognition</i>	<p>Recognition criteria—whether and how to amend aspects of the proposed recognition criteria in the light of the concerns about the proposed removal of the existing recognition criteria, in particular the probability criterion.</p> <p>Derecognition—whether to confirm the proposals in the Exposure Draft or consider the control approach to derecognition.</p>
Chapter 6— <i>Measurement</i>	The staff seek the Board’s views on the approach to redeliberations of the Measurement chapter in Agenda Paper 10C <i>Approach to redeliberations—Measurement</i> .
Chapter 7— <i>Presentation and disclosure</i>	<p>Presentation and disclosure—whether to confirm the proposals in the Exposure Draft or include in the Conceptual Framework a discussion about primary financial statements and notes to financial statements.</p> <p>Information about financial performance—the staff seek the Board’s views on the approach to redeliberations of this topic in Agenda Paper 10D <i>Approach to redeliberations—Reporting financial performance</i>.</p>
Chapter 8— <i>Concepts of capital and capital maintenance</i>	Capital maintenance—whether to retain the existing section as proposed in the Exposure Draft or replace it with a revised section or delete it.
Other topics	Business activities and long-term investment—whether to confirm the proposals in the Exposure Draft or provide further guidance and clarify the terminology.

Question 1 for the Board

Do you have any comments on the proposed approach to redeliberations discussed in paragraphs 8–9?

Effects of the *Conceptual Framework*

10. This section discusses:
 - (a) effects of the proposals on future standard-setting by the Board (paragraphs 11–16);
 - (b) inconsistencies between the proposals in the Exposure Draft and the existing IFRS Standards (paragraphs 17–22); and
 - (c) effects of the proposals on preparers (paragraphs 23–28).

Effects of the proposals on future standard-setting

11. The Invitation to Comment on the Exposure Draft stated that a more complete, clear and updated set of concepts will help the Board to develop Standards that better meet the needs of investors, creditors and others.
12. As discussed in [Agenda Paper 10N](#) for the March 2016 Board meeting, some respondents encouraged the Board to undertake a more extensive analysis of the effects of the proposals so that both the Board and interested parties could better assess implications of the proposals for future IFRS Standards. In particular, some respondents encouraged the Board to field test the proposals. This view was often expressed in relation to proposed changes in the definitions of assets and liabilities, especially the definition of a liability and the proposed description of a present obligation.
13. The staff note that many proposed concepts—including proposed concepts for recognition, derecognition and measurement as well as for presentation and disclosure—set out thought processes for the Board to apply in judging which requirements would result in the provision of the most useful information at a cost that does not exceed the benefits. The staff continue to think that it is not possible to predict the judgements that the Board would make if it were to set IFRS Standards applying the thought processes proposed in the Exposure Draft. To do so would, in effect, require the Board to make Standards-level decisions about projects that may not even be on the Board’s agenda. Accordingly, the staff do not propose performing

comprehensive analysis or field-testing of the effects of the proposals on future standard-setting.

14. However, some proposed concepts focus on definitions, rather than on thought processes. Definitions can be tested, and many respondents who requested field-testing appeared to focus on the possible effects of the revised definitions of assets and liabilities. Accordingly, the staff think it would be appropriate to perform more extensive analysis of the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—*could* have for the current projects. Projects for which the definitions might be particularly relevant include:
 - (a) the research projects on:
 - (i) provisions, contingent liabilities and contingent assets; and
 - (ii) pollutant pricing mechanisms; and
 - (b) the project on rate-regulated activities.

15. In some cases, the staff may be able to reach a view on how the proposed definitions and supporting concepts would apply to particular transactions. For example, the staff have previously given views on how the proposed definition of a liability and description of a present obligation could change the analysis of some, but not all, transactions within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.¹ However, in other cases (for example, for pollutant-pricing mechanisms and rate-regulated activities) there may be a range of factors to consider. In these cases, the staff would be able to identify only where and how the proposed definitions and supporting concepts could be relevant to future Board discussions on these topics. The relevant project teams would need to perform further analysis before reaching a view on how the proposed definitions and supporting concepts would apply to particular transactions.

16. In addition, the staff could ask the ASAF for help with testing the proposed definitions and supporting concepts. ASAF members might be able to provide comments or alternative views on how the proposed definitions and supporting

¹ See [Agenda Paper 14C Research—IAS 37—Implications of Conceptual Framework proposals](#), IASB meeting, July 2015

concepts would apply to the transactions analysed by the staff, thereby helping to identify any areas in which the concepts could be improved.

Inconsistencies between the proposals and existing IFRS Standards

17. The Invitation to Comment on the Exposure Draft stated that the Board would not automatically amend an existing IFRS Standard as a result of the revisions to the *Conceptual Framework*. The Basis for Conclusions on the Exposure Draft discussed inconsistencies between the proposals in the Exposure Draft and the existing IFRS Standards.
18. Many respondents agreed with the Board's approach to dealing with inconsistencies. However, some other respondents who asked the Board to undertake a more extensive analysis of the effects of the proposals suggested that the Board should:
 - (a) provide a Standard-by-Standard analysis of possible inconsistencies with the revised *Conceptual Framework*; and
 - (b) develop a strategy for dealing with those inconsistencies.
19. In addition, many respondents suggested other possible inconsistencies between the proposals and existing IFRS Standards in addition to those identified in the Exposure Draft. A few respondents suggested updating IFRS Standards to reflect the terminology in the *Conceptual Framework*. Some of them suggested updating all affected IFRS Standards; others suggested amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* only.
20. The staff continue to think that revisions to the *Conceptual Framework* should not automatically result in amending existing IFRS Standards and that the Board should follow its normal due process for adding a project to its agenda. The staff note that many respondents supported that approach.
21. The staff also note that in deliberating the Exposure Draft, the Board specifically considered the need to align the terminology in the *Conceptual Framework*, IAS 1 *Presentation of Financial Statements* and IAS 8, as well as the need to replace the term 'reliability' in other IFRS Standards and decided not to do so at that stage. The staff plan to ask the Board whether the Board would like to confirm or reconsider

those decisions once the redeliberations of the topics identified in paragraph 9 are completed.

22. The staff also plan to analyse additional inconsistencies suggested by respondents in developing future Board papers on relevant topics. However, the staff do not propose performing a more comprehensive analysis of inconsistencies compared to the analysis provided in the Exposure Draft. Similar to assessing effects of the revised *Conceptual Framework* on future standard-setting discussed in paragraph 13, the staff think that it would not be possible or appropriate to attempt to predict what judgements the Board would now make if it were to set requirements in the existing IFRS Standards applying the concepts in the revised *Conceptual Framework*.

Effects of the proposals on preparers

23. The Invitation to Comment on the Exposure Draft stated that the proposed changes to the *Conceptual Framework* would not have an immediate effect on most reporting entities. However, entities will be affected when they:
- (a) use the revised *Conceptual Framework* to develop or select accounting policies; and
 - (b) implement new or revised IFRS Standards that are based on the revised *Conceptual Framework*.²
24. To enable transition to the revised *Conceptual Framework* for entities that develop their accounting policies on the basis of the *Conceptual Framework*, the Exposure Draft *Updating References to the Conceptual Framework* proposed replacing references to the *Framework for the Preparation and Presentation of Financial Statements* within IAS 1 and IAS 8 and some other Standards and Interpretations with references to the revised *Conceptual Framework*.
25. Most respondents supported a staff proposal to replace references with references to the revised *Conceptual Framework*. However, some respondents expressed concerns about potential unintended consequences of the proposals. For example, some respondents expressed concerns that the absence of specific recognition criteria in the

² The staff ask the Board to confirm the proposed purpose and status of the *Conceptual Framework* in Agenda Paper 10A *Purpose and status of the Conceptual Framework*.

revised *Conceptual Framework* could result in entities inappropriately recognising a large number of intangible assets such as customer relationships, which might not provide useful information. Some respondents expressed concerns about the difficulty in identifying which accounting policies would be affected by changing the references in IAS 8 and asked the Board to undertake further analysis of the issue.

26. The staff expect that the circumstances when reporting entities will be directly affected by the revised *Conceptual Framework* in developing and selecting their accounting policies will be limited. The staff note that existing IFRS Standards cover a broad range of circumstances. Accordingly, the staff suggest that, in many cases, in developing their accounting policies preparers would be applying a specific IFRS Standard rather than using the *Conceptual Framework*. For example, the staff note that recognition of intangible assets is addressed in IAS 38 *Intangible Assets* and, therefore, the proposed concepts on recognition in the *Conceptual Framework* would not lead to the inappropriate recognition of a large number of intangible assets by preparers (as discussed in paragraph 25).
27. In addition, even if there is no applicable IFRS Standard, the IAS 8 hierarchy for developing and applying accounting policies requires that reporting entities refer to IFRS Standards dealing with similar and related issues before they refer to the *Conceptual Framework*.
28. However, the staff acknowledge the concerns raised and plan to further consider respondents' comments and suggestions and to perform a more detailed analysis of the effects of the proposals on preparers. The staff plan to present the results of this work in a future Board paper and, where necessary, consider the impact of proposals on preparers in Board papers on particular topics.

Question 2 for the Board

Do you agree with the staff's proposed approach to analysing the effects of the revised *Conceptual Framework* as set out in paragraphs 11–28?