

## STAFF PAPER

March 2016

## IASB Meeting

Project	Conceptual Framework		
Paper topic	Feedback summary—Overview		
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**Purpose of paper**

1. This paper:
  - (a) provides an overview of the comment letters received and other outreach undertaken during the comment period for the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft); and
  - (b) summarises some of the general comments made on the Exposure Draft, including comments received on the purpose and status of the *Conceptual Framework* and feedback received on the interaction with other projects.
2. The following papers provide a high-level summary of the comments received on each major section of the Exposure Draft. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.
  - (a) AP 10A—*Feedback summary—Chapter 1—The objective of general purpose financial reporting*
  - (b) AP 10B—*Feedback Summary—Chapter 2—Qualitative characteristics of useful financial information*
  - (c) AP 10C—*Feedback Summary—Chapter 3—Financial statements and the reporting entity*
  - (d) AP 10D—*Feedback summary—Elements of financial statements—Assets*

- (e) AP 10E—*Feedback summary—Elements of financial statements—Liabilities and equity*
  - (f) AP 10F—*Feedback summary—Elements of financial statements—Income, expenses and undefined elements*
  - (g) AP 10G—*Feedback Summary—Recognition*
  - (h) AP 10H—*Feedback Summary—Derecognition*
  - (i) AP 10I—*Feedback Summary—Measurement and Capital Maintenance*
  - (j) AP 10J—*Feedback Summary—Presentation and disclosure*
  - (k) AP 10K—*Feedback Summary—Information about financial performance*
  - (l) AP 10L—*Feedback summary—Business activities and long-term investment*
  - (m) AP 10N—*Feedback summary—Effects of the proposed changes to the Conceptual Framework and the Exposure Draft Updating References to the Conceptual Framework*
3. Agenda paper 10M separately summarises the feedback received from users of financial statements.
  4. Agenda paper 10O summarises the key messages from each of the papers listed in paragraph 2. This paper will be used as the basis for our discussion during the Board meeting.

### **Next steps**

5. At the April Board meeting we will ask you to approve a strategy for finalising the *Conceptual Framework*.

### **Structure of paper**

6. This paper is structured as follows:
  - (a) Summary of feedback (paragraphs 7–11)

- (b) General comments (paragraphs 12–22)
- (c) Purpose and status of the *Conceptual Framework* (paragraphs 23–28)
- (d) Interaction with other projects (paragraphs 29–36)
- (e) Appendix A—Demographic information (paragraphs A1–A3)

## Summary of feedback

### **Comment letters**

7. The 180-days comment period ended on 25 November 2015. As of 2 March 2016, the Board had received 233 comment letters. Appendix A provides a summary by type of respondent and geographical region.

### **Other outreach**

8. During the comment period, Board members and staff conducted over 80 outreach meetings. The purpose of the outreach meetings ranged from providing an overview of the proposals in the Exposure Draft to getting feedback on those proposals. Not all topics were discussed at every meeting. Instead, in some meetings we focused on the topics that we thought would be of particular interest to the meeting participants.
9. The outreach meetings included the following:
- (a) meetings organised by local standard-setters in North America, Latin America, Europe, Africa, Japan, Australia and New Zealand;
  - (b) discussions with formal advisory bodies to the Board (IFRS Advisory Council, Capital Markets Advisory Committee and Global Preparers Forum);
  - (c) IFRS conferences in Paris and Hong Kong where we discussed the *Conceptual Framework* with a broad range of stakeholders;
  - (d) targeted outreach with users of financial statements on topics that are most directly relevant to them; and

- (e) other meetings with individual preparers, insurance groups, banks, regulators, accounting firms, governmental organisations and academics.
10. The Accounting Standard Advisory Forum (ASAF) acts as our consultative group on the *Conceptual Framework* project. We met with ASAF six times during the development of the Exposure Draft and two times during the comment period and discussed the following topics:
- (a) qualitative characteristics of useful financial information (including prudence);
  - (b) definition of the elements of financial statements;
  - (c) recognition;
  - (d) derecognition;
  - (e) measurement;
  - (f) profit or loss and other comprehensive income (OCI);
  - (g) executory contracts;
  - (h) business model; and
  - (i) long-term investment.
11. The feedback we received during the outreach meetings is generally consistent with the feedback we received from the comment letters, except where we indicate otherwise in the Agenda Papers.

## General comments

12. Most of the respondents who commented on the Board's decision to revise the *Conceptual Framework* expressed their support:

As mentioned in our previous comment letters, we support the comprehensive revision of the *Conceptual Framework* undertaken by the IASB. In our view, the *Conceptual Framework* is the primary conceptual source for the IASB to develop and improve the Standards based on consistent concepts and for stakeholders (i.e. preparers, auditors and

users) to understand and apply IFRS. *Fédération Bancaire Française (FBF)*

13. Feedback from the Board's 2015 Agenda Consultation also appears to indicate that many support the decision to revise the *Conceptual Framework* and that the project should be given a high priority.
14. Some commented that the proposed *Conceptual Framework* is a significant improvement on the existing *Conceptual Framework* and expressed their support for particular aspects of the proposals.
15. However, some respondents think that the proposed *Conceptual Framework* still needs more work, especially on:
  - (a) measurement; and
  - (b) the definition of and distinction between profit or loss and other comprehensive income (OCI).
16. Two respondents expressed the view that the changes that are needed to finalise the *Conceptual Framework* may necessitate a second Exposure Draft.
17. Some respondents explicitly agreed with the Board's approach to update, clarify and fill gaps in the existing *Conceptual Framework* rather than fundamentally reconsidering all aspects of it. However, two respondents expressed the view that they would have preferred the Board to undertake a complete review of the *Conceptual Framework*.
18. A few respondents, although acknowledging the Board's efforts to complete the project on a timely basis, think that the Board should not rush to finalise the revised *Conceptual Framework* if doing so would compromise on its quality. They expressed the view that the Board should consider some aspects of the *Conceptual Framework* in greater depth before issuing a final document.
19. A few respondents thought that the proposals in the Exposure Draft were too much a mix of concepts and rules, ie the guidance in some areas is too specific whereas in other areas it is not specific enough. A few respondents also expressed the view that the Exposure Draft appeared sometimes to simply justify existing requirements taken from recently issued IFRS Standards rather than develop new and profound concepts.

20. A few respondents expressed the view that the document is too long and should be shortened to focus more on high-level concepts.
21. Some respondents encouraged the Board to undertake a more extensive effects analysis so that they could better assess possible implications for and potential changes to future IFRS Standards resulting from a revised *Conceptual Framework*. These comments are discussed in more detail in AP 10N—*Feedback summary—Effects of the proposed changes to the Conceptual Framework and the Exposure Draft Updating References to the Conceptual Framework*.
22. A few respondents also commented on the Board’s relationship with other organisations:
- (a) A few respondents, mainly from North America, expressed their regret that the Board’s *Conceptual Framework* and the US-based Financial Accounting Standards Board’s (FASB) *Conceptual Framework* will not be aligned. They think convergence between the two *Conceptual Frameworks* is highly desirable and the Board should aim to achieve this.
  - (b) A few respondents encouraged the Board to work more closely with other groups such as International Public Sector Accounting Standards Board (IPSASB), the International Integrated Reporting Council (IIRC) and the International Auditing and Assurance Standards Board (IAASB).

## Purpose and status of the Conceptual Framework

### *Exposure Draft proposals*

23. The introduction to the Exposure Draft proposes:

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.

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.

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

### **Summary of feedback**

24. Some respondents commented explicitly on the above statements although the Board did not ask a specific question.
25. Many who commented on paragraph IN1 agreed with the stated purpose of the *Conceptual Framework*. However, a few respondents suggested that 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.
26. Some respondents commented on the proposed status of the *Conceptual Framework*:
  - (a) Many of those who commented agreed that the *Conceptual Framework* should not override any IFRS Standard.

- (b) In contrast, others expressed the view that the Board should not be allowed to set future IFRS Standards that deviate from the *Conceptual Framework*.
27. A few respondents expressed support for the statement in the Exposure Draft that any departures from the *Conceptual Framework* should be explained in the Basis for Conclusions accompanying the respective IFRS Standard.
28. Some respondents commented on how the Board should deal with any conflicts between the finalised *Conceptual Framework* and existing IFRS Standards<sup>1</sup>:
- (a) Many expressed the view that a revised *Conceptual Framework* should not result in a revision of existing IFRS Standards, especially if these Standards work well in practice.
  - (b) Others suggested that the IASB should develop a strategy for revising any IFRS Standards that conflict with the revised *Conceptual Framework*. Some respondents expressed the view that all existing IFRS Standards should be amended to make them consistent with the revised *Conceptual Framework*.

### Interaction with other projects

29. Many respondents urged the Board to prioritise its research projects as some of the projects' outcomes could result in significant improvements to the *Conceptual Framework* and hence, future standard-setting. Some of those respondents expressed the view that the Board should update the finalised *Conceptual Framework* to reflect the outcome of these research projects. They suggested that the *Conceptual Framework* should be a 'living document', being aware of the Board's intention to complete the *Conceptual Framework* project on a timely basis.
30. Most of those respondents supported the Board's decision to undertake further work on the distinction between liabilities and equity as part of the research project on *Financial Instruments with Characteristics of Equity* (FICE). Many of these respondents agreed that the work in that project should not delay the finalisation of

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<sup>1</sup> AP 10N—*Feedback summary—Effects of the proposed changes to the Conceptual Framework and the Exposure Draft* Updating References to the Conceptual Framework provides more detail on these comments.



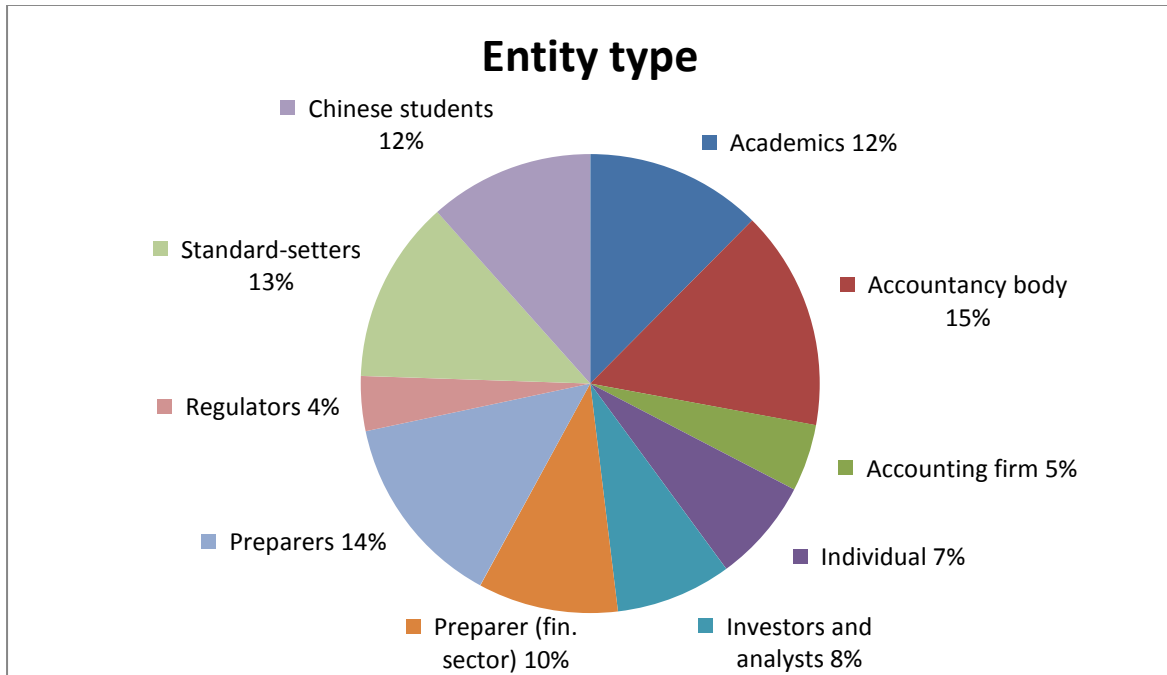
the revised *Conceptual Framework*. However, some respondents think that the Board should await the outcome of its deliberations in the FICE project before finalising the revised *Conceptual Framework*. We discuss comments on the distinction between liabilities and equity further in AP 10E—*Feedback summary—Elements of financial statements—Liabilities and equity*.

31. Some respondents also expressed the view that the Board should continue research work on a possible project to remove inconsistencies between a revised *Conceptual Framework*, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as well as IFRIC 21 *Levies*.
32. Also, many respondents welcomed the work the Board is undertaking in its *Disclosure Initiative* project and would like to see this as another priority in the Board’s working programme. Some stressed, that important principles developed in this project should be included in the *Conceptual Framework*. However, a few respondents asked the Board to clarify how the outcome of the projects included in the *Disclosure Initiative* might affect a revised *Conceptual Framework*.
33. Some respondents acknowledged the Exposure Draft’s reference to materiality but requested more guidance on materiality in the *Conceptual Framework*, by including some of the material proposed by the Board in the Exposure Draft *IFRS Practice Statement Application of Materiality to Financial Statements*.
34. Respondents also welcomed the *Primary Financial Statements* project. In particular, respondents expressed the view that the outcome of this project should provide guidance on the definitions of profit or loss and of performance.
35. A few respondents, who expressed the view that the measurement chapter of the Exposure Draft needed more work, suggested that the Board adds a research project on measurement to its agenda.
36. A few respondents asked the Board to prioritise its research projects on rate-regulated activities and discount rates.

**Appendix A—Demographic information**

A1. The following is a graphical summary of the 233 comment letters received by 2 March 2016. We received 27 letters from a group of Chinese students. We have shown these letters separately in the following charts.

A2. This pie chart illustrates the breakdown of comment letters by respondent type:



A3. This pie chart illustrates the breakdown of comment letters by geographical region:

