STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Review of existing Standards for potential inconsistencies with the revised *Conceptual Framework*		
CONTACT(S)	David Ji	dji@ifrs.org	+44 (0)20 7246 6494
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743

Purpose of paper

1. This paper discusses the review of existing IFRS Standards for potential inconsistencies with the forthcoming revised *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*).

2. This paper is for information only. The staff will ask the Board if it is satisfied with the work performed to assess the effects of the revised *Conceptual Framework*, including the work performed on potential inconsistencies, in Agenda Paper 10D *Effects of the revised Conceptual Framework* for this month's meeting.

Structure of paper

3. This paper is structured as follows:

   (a) staff conclusion (paragraph 5);

   (b) background (paragraphs 6–10); and

   (c) staff analysis (paragraph 11–19)

4. This paper includes the following appendices:

   (a) Appendix A discusses potential inconsistencies between Standards and the proposals in the Exposure Draft *Conceptual Framework for*

Financial Reporting (the Exposure Draft) suggested by respondents in addition to those discussed in the Basis for Conclusions on the Exposure Draft.

(b) Appendix B provides an extract from the Basis for Conclusions on the Exposure Draft that discusses inconsistencies with Standards identified by the staff prior to publishing the Exposure Draft.

Staff conclusion

5. The staff's review for potential inconsistencies between existing Standards and the revised *Conceptual Framework* has not identified substantive inconsistencies in addition to those discussed in the Exposure Draft.

Background

Discussion in the Exposure Draft

6. Prior to the publication of the Exposure Draft, the staff performed a review of potential inconsistencies between existing Standards and the concepts to be included in the Exposure Draft (see October 2014 Agenda Paper 10D). That analysis was incorporated into the Basis for Conclusions on the Exposure Draft (paragraphs BCE.2–BCE.24) in order to assist interested parties in understanding the implications of the proposals. Question 15 of the invitation to comment on the Exposure Draft asked respondents whether they agreed with that analysis.

7. The summary and invitation to comment on the Exposure Draft stated that the Board:

> …will not automatically change existing Standards as a result of the proposed changes to the *Conceptual Framework*. If an existing Standard works well in practice, the IASB will not propose an amendment to an existing Standard simply because of an inconsistency with the revised *Conceptual Framework*. Any decision to amend an existing Standard would

require the IASB 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.

Tentative decisions to date

8. In April 2016, the Board discussed its approach to inconsistencies in finalising the revised *Conceptual Framework* (see April 2016 Agenda Paper 10B). The Board noted that many respondents supported the approach to inconsistencies proposed in the Exposure Draft; that is, that the Board would not automatically amend existing Standards as a result of the revisions to the *Conceptual Framework*. The Board also noted that:

   (a) many respondents suggested other possible inconsistencies in addition to those identified in the Exposure Draft;

   (b) some respondents asked the Board to provide a Standard-by-Standard analysis of possible inconsistencies with the revised *Conceptual Framework* and develop a strategy for dealing with those inconsistencies; and

   (c) a few respondents asked the Board to align terminology in Standards with the revised *Conceptual Framework*.

9. The Board tentatively decided:

   (a) to analyse additional inconsistencies between the revised *Conceptual Framework* and Standards that have been suggested by respondents; and

   (b) not to perform a comprehensive analysis of inconsistencies between the revised *Conceptual Framework* and Standards.

10. Agenda Paper 10E from January 2017 discussed updating terminology in Standards and concluded that doing so is outside the scope of the Conceptual Framework project (see paragraphs B1 and B2 of Appendix B of that Agenda Paper).

Staff analysis

11. The staff:

    (a) analysed potential additional inconsistencies between Standards and the revised *Conceptual Framework* suggested by respondents to the Exposure Draft (paragraphs 15–16); and

    (b) reviewed the requirements of the new Standards, namely, the revised IFRS 9 *Financial Instruments*, IFRS 14 *Regulatory Deferral Accounts*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, and the amendments to Standards that have been issued since publishing the Exposure Draft for consistency with the revised *Conceptual Framework* (paragraphs 17–19).

12. In conducting the analysis, the staff only focused on identifying substantive inconsistencies.

13. In addition, consistent with the approach adopted prior to publishing the Exposure Draft, the staff did not attempt to predict what judgements the Board would make if it were to set requirements in Standards applying the concepts that will be included in the revised *Conceptual Framework* for:

    (a) recognition and measurement requirements; and

    (b) reclassification of income and expenses to the statement of profit or loss included in other comprehensive income (OCI) in an earlier period.

14. Furthermore, the staff did not identify the following requirements as being inconsistent with the revised *Conceptual Framework*:

    (a) requirements that, although consistent with the concepts now proposed, are currently rationalised using different concepts in the Basis for Conclusions; and

    (b) requirements that seem to have been driven by cost-benefit considerations.

Potential additional inconsistencies suggested by respondents

15. Potential additional inconsistencies suggested by respondents, and the staff responses, are set out in Appendix A. For completeness, Appendix A discusses inconsistencies suggested by respondents in response to Question 15 of the Exposure Draft, as well as those suggested in response to other questions and those already discussed in previous Board papers. Where different, the staff response reflects the Board's tentative decisions to date rather than proposals included in the Exposure Draft.

16. As a result of this analysis, the staff have not identified potential inconsistencies between Standards and the proposed revised *Conceptual Framework* other than those already discussed in the Exposure Draft.

Review of newly issued Standards and amendments

17. In reviewing the requirements of the newly issued Standards and amendments to Standards, the staff noted that IFRS 14 permits an entity within its scope to apply an exemption from paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity applying this exemption does not need to not consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework* when developing an accounting policy for regulatory deferral accounts. As a result, an eligible entity that chooses to apply this exemption will, when it adopts IFRS Standards, continue to account for its regulatory deferral account balances in accordance with its previous generally accepted accounting principles. This could result in outcomes that would be inconsistent with the concepts set out in the revised *Conceptual Framework*. However, the staff did not identify the requirements in IFRS 14 as an inconsistency because the Standard provides an exemption from applying the concepts set out in the revised *Conceptual Framework.*

18. Moreover, the staff note that IFRS 14 represents an interim narrow-scope Standard that has been put in place to allow first-time adopters of IFRS Standards to avoid making changes to their accounting policies for regulatory deferral accounts on transition to IFRS Standards until the Rate-regulated Activities

project is completed. In developing the final Standard on rate-regulation, the Board will consider the concepts included in the revised *Conceptual Framework*.

19. The staff's review of newly issued Standards and amendments has not identified any substantive inconsistencies with the concepts that will be included in the revised *Conceptual Framework*.

Appendix A Potential inconsistencies suggested by respondents in addition to those discussed in the Exposure Draft

A1. This appendix sets out inconsistencies suggested by respondents between the proposals in the Exposure Draft and Standards in addition to those discussed in the Exposure Draft, and provides a staff response.

	Respondents' comments and questions	Staff responses
	Chapter 1 *The objective of general purpose financial reporting* and Chapter 2 *Qualitative characteristics of useful financial information*	
A1	IFRS 11 *Joint Arrangements* may be seen as inconsistent with the proposed guidance on substance over form as the requirements of that Standard could be perceived as relying much more on the legal form rather than on the economic substance and the purpose of joint arrangements.	The staff will clarify in drafting that assessment of an economic phenomenon requires a balanced consideration of both substance and legal form (see paragraph 7(b) of May 2016 Agenda Paper 10B *Chapters 1 and 2—introduction*). This is consistent with the requirement in paragraphs 12 and 17 of IFRS 11. Those paragraphs emphasise that an entity applies judgement in assessing joint arrangements by considering all facts and circumstances. In particular, an entity assesses its rights and obligations by considering the structure and legal form of the

	Respondents' comments and questions	Staff responses
		arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.
	Chapter 3 *Financial statements and the reporting entity*	
A2	The proposed definition of consolidated financial statements is different to the definition in IFRS 10 *Consolidated Financial Statements*.	The Exposure Draft does not define consolidated financial statements. Rather, it discusses the relationship between consolidated and unconsolidated financial statements and the boundary of a reporting entity based on the notions of direct and indirect control (paragraph 3.15). As discussed in paragraph 34 of September 2016 Agenda Paper 10B *The reporting entity*, the concepts underlying the notions of 'direct' and 'indirect' control are consistent with the requirements of IFRS 10 to prepare consolidated financial statements. However, to avoid confusion about the terms 'direct' and 'indirect' control the Board tentatively decided at its September 2016 meeting not to use those specific terms in the revised *Conceptual Framework*.
A3	The terms 'direct control' and 'indirect control' used in the	At the September 2016 meeting, the Board tentatively decided to

	Respondents' comments and questions	Staff responses
	Exposure Draft are not used in IFRS 10.	confirm the proposed concepts underlying the notions of 'direct' and 'indirect' control, but not to use those specific terms in the revised *Conceptual Framework*.
A4	The requirement in IFRS 10 for an entity to prepare consolidated financial statements is inconsistent with the statement in the Basis for Conclusions of the Exposure Draft that the Board has no authority to determine who must or should prepare general purpose financial statements.	Standards, including IFRS 10, do not specify whether and when an entity is required to prepare general purpose financial statements. However, if an entity that is a parent presents general purpose financial statements, IFRS 10 requires such an entity to present consolidated financial statements (unless that parent qualifies for an exemption from consolidation).
A5	There is an inconsistency between paragraph 3.24 of the Exposure Draft and paragraph 4(a)(iv) of IFRS 10. Paragraph 3.24 of the Exposure Draft proposed that consolidated financial statements of the parent are not intended to provide information to users of a subsidiary's financial statements. Paragraph 4(a)(iv) of IFRS 10 sets out the following condition for a parent not to present consolidated financial statements: 'its ultimate or intermediate parent produces financial statements that are	The Exposure Draft did not address when consolidated financial statements should be required. Rather, it discussed the boundaries of consolidated financial statements and to which groups of users they are more likely to provide useful information. Eligibility conditions for an exemption from preparing consolidated financial statements are Standards-level detail. The conditions for the exemption in IFRS 10 were designed to provide safeguards for the users of the intermediate parent's financial statements.

	Respondents' comments and questions	**Staff responses**
	available for public use and comply with IFRS Standards'. Accordingly, paragraph 4(a)(iv) of IFRS 10 should be deleted. This is because availability of financial statements prepared by the ultimate parent is not relevant to the question of the usefulness of company level information prepared by the intermediate holding companies.	
A6	There are inconsistencies between the wording used in the Exposure Draft and that used in IAS 27 *Separate Financial Statements*. This IFRS Standard uses the term 'separate financial statements', whereas the Exposure Draft refers to 'unconsolidated financial statements'.	The Basis for Conclusion on the Exposure Draft clarifies why the Exposure Draft uses the term 'unconsolidated financial statements' instead of the term 'separate financial statements', which is defined in IAS 27 to cover specific circumstances.
A7	IAS 27 applies to more types of financial statements than the Exposure Draft explicitly mentions (for example, the financial statements of an entity that does not have a subsidiary but has an equity-accounted investment). It is not clear if such statements are 'unconsolidated financial statements'.	Whether the financial statements of an entity that does not have a subsidiary but has an investment that is accounted for using the equity method are unconsolidated financial statements is Standards-level detail.

	Respondents' comments and questions	**Staff responses**
A8	The reporting entity perspective proposed in the Exposure Draft is inconsistent with the option to recognise goodwill from the parent's perspective under IFRS 3 *Business Combinations*.	The staff note that goodwill recognised in a business combination is a residual amount that among other things depends on measurement of non-controlling interests. The staff agree that measuring non-controlling interests at the proportionate share of the acquiree's identifiable net assets results in recognition of the parent-only share of goodwill. However, such treatment is optional and effectively represents a narrow exception to the measurement principle in IFRS 3. The measurement principle in IFRS 3 requires recognition in full of the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. That principle is consistent with the reporting entity perspective that will be discussed in the revised *Conceptual Framework*. In addition, presentation of non-controlling interests in the consolidated financial statements within equity (IFRS 10, paragraph 22) is also consistent with the reporting entity perspective.
	Chapter 4 *The elements of financial statements* and	

	Respondents' comments and questions	Staff responses
	Chapter 5 *Recognition and derecognition*	
A9	Some items that are recognised as assets or liabilities applying existing IFRS Standards may not meet the proposed definitions of an asset or a liability, for example: (a) deferred tax assets and liabilities; (b) some intangible assets and goodwill; (c) some employee benefit plan assets and/or liabilities as identified in IAS 19 *Employee Benefits*; (d) some assets and liabilities recognised in accordance with IFRS 14; (e) some types of assets and liabilities recognised as a result of matching costs and benefits. For example, decommissioning costs capitalised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as a result of recognition of expected decommissioning obligation or liabilities related to	Agenda Paper 10F *Conceptual Framework Liability definition and supporting concepts—other topics* from November 2016 addresses all but one of the concerns raised by respondents and illustrates how application of the proposed definitions and supporting concepts could lead to requirements consistent with those in existing IFRS Standards. The examples in Agenda Paper 10F do not include decommissioning costs. However, the staff think that existing requirements for decommissioning costs can be explained using the concepts in the revised *Conceptual Framework*. The asset recognised applying IAS 16 *Property, Plant and Equipment* is the right associated with the property, plant or equipment. The estimated decommissioning costs could be viewed as a component of the measure (cost) of those rights.

	Respondents' comments and questions	**Staff responses**
	government grants under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.	
A10	Does the contractual service margin in the insurance contract meet the definition of a liability?	An insurer's obligation for remaining coverage meets the definition of a liability. The contractual service margin is part of the measurement of the liability—it does not need to be an obligation in its own right.
A11	Inconsistency with the new guidance on present obligation may not be limited to levies as interpreted by IFRIC 21 *Levies*. It may also affect restructuring provisions, litigation liabilities and other obligations in the scope of IAS 37.	Agenda Paper 10F *Conceptual Framework Liability definition and supporting concepts—other topics* from November 2016 explains why the new definitions would not necessarily lead to different accounting requirements for restructuring provisions, litigation liabilities and various other obligations in the scope of IAS 37.
A12	The notion of 'no practical ability to avoid' is incompatible with current practice, for example in applying IFRS 2 *Share-based Payment* and IAS 19 in cases where accrued benefits are unvested but expected to be paid.	Paragraph 27 of November 2016 Agenda Paper 10C *Conceptual Framework: Liability definition and supporting concepts—the 'no practical ability to avoid' criterion* explains how existing requirements for unvested employee benefits are consistent with a

	Respondents' comments and questions	Staff responses
		'no practical ability to avoid' concept.
A13	The Exposure Draft extends the concept of 'no practical ability to avoid the transfer' to introduce an economic compulsion test to determine the existence of a liability which may be inconsistent with the principles in IAS 32 *Financial Instruments: Presentation*.	The Conceptual Framework project is not addressing the distinction between liabilities and equity instruments. Furthermore, the Board has decided to amend the Exposure Draft proposals to avoid implying that economic compulsion is necessarily sufficient to result in an entity having 'no practical ability to avoid' a transfer (paragraphs 29–38 of November 2016 Agenda Paper 10C *Conceptual Framework: Liability definition and supporting concepts—the 'no practical ability to avoid' criterion*).
A14	Paragraph 4.30 of the Exposure Draft proposed that an obligation for an entity to transfer its own equity instruments would not be a liability. This is inconsistent with IAS 32 which requires an obligation to transfer of a variable number of equity instruments with a fixed total value to be treated as a liability.	At its November 2016 meeting, the Board tentatively decided the revised *Conceptual Framework* should omit the statement included in paragraph 4.30 that an obligation of an entity to transfer its own equity claims to another party is not an obligation to transfer an economic resource.
A15	Non-recognition of operating leases in IAS 17 *Leases* is	IFRS 16 has replaced IAS 17. IFRS 16 requires recognition of

	Respondents' comments and questions	Staff responses
	inconsistent with the proposed guidance on present obligations.	liabilities for operating leases, which is consistent with the proposed concepts.
A16	Not all of the expense recognised arising from share-based payment transactions in accordance with IFRS 2 fulfils the proposed definition of an expense as it does not necessarily represent 'decreases in assets or increases in liabilities'.	The expense arises from the consumption of employee services, not the increase in equity claims. Paragraph 4.9 of the Exposure Draft explains that employee services are momentarily assets until they are consumed. Hence there is a reduction in assets when the services are consumed.
A17	The proposed concepts do not appear to allow a contract to be disaggregated into a series of portions, with remaining unperformed portions continuing to be treated as executory. The proposed concepts are therefore inconsistent with the requirements of IFRS 15 (which requires entities to disaggregate contracts into performance obligations, and account for each performance obligation as executory until either party performs in respect of that obligation). In addition, the proposed concepts could imply that an unequally performed contract could be considered as no longer executory in its entirety which could	The staff think that the proposed concepts state clearly that the contract ceases to be executory only to the extent that a party fulfils its obligations under the contract. Accordingly, the contract that is partially unperformed will not cease to be executory in its entirety and will not swing between executory and non-executory depending on whether the parties performed to an equal extent. Rather, the fulfilled portion of the contract will cease to be executory and will give rise to an asset for the party that has performed and an obligation for the other party. The unfulfilled portion of the contract will continue to be executory. This is

	Respondents' comments and questions	Staff responses
	result in: (a) any rights and obligations arising from the portion of the contract that remains equally unperformed being accounted for as a separate asset and a separate liability; and (b) a partially unperformed contract swinging between executory and non-executory depending on whether the parties to the contract have performed their obligations to an equal or unequal extent.	consistent with the requirements of IFRS 15.
A18	Definition of control in paragraph 4.18 of the Exposure Draft does not align with the definition of control under IFRS 10 and how it has been used in IFRS 3, IFRS 11, IAS 28 *Investments in Associates and Joint Ventures* and IAS 27.	This topic is addressed in paragraph 63(b) of July 2016 Agenda Paper 10B *Asset definition and supporting concepts*. The conclusion in the paper is that the proposed definition of control is consistent with IFRS Standards defining control of an asset. The definition of control of a business in IFRS 10 (and applied in the other Standards listed) is necessarily slightly different.
A19	There is a possible inconsistency between the definition of an	IFRS 15 requires entities to recognise a liability for refund

	Respondents' comments and questions	**Staff responses**
	asset and a liability and the guidance on the transfer of products with a right of return in paragraph B21 of IFRS 15.	obligations and an asset for the goods it expects to be returned as a result of those obligations. The respondent (a preparer) correctly observed that an entity no longer controls the goods sold with a right of return. So the respondent suggested that the goods expected to be returned do not meet the definition of an asset. The respondent suggested that the requirement in IFRS 15 should be reviewed—in the respondent's view, the entity has written an option and, applying the concepts, the expected refunds and goods returned should be recognised net. The staff note that, when goods are sold with a right of return, the question is typically one of derecognition. The revised *Conceptual Framework* has concepts for derecognition. And these concepts envisage that for some transactions, loss of control might not lead to derecognition of an asset. Paragraph BC367 in the Basis for Conclusions accompanying IFRS 15 explains that the Board decided that the right to recover the goods should be recognised as an asset (rather than being

	Respondents' comments and questions	Staff responses
		offset against the refund liability) to provide greater transparency and ensure that the asset is considered for impairment testing.
A20	Paragraphs 105–106 and Example 38 in IFRS 15 require the recognition of a receivable for the unconditional, non-cancellable payment on the due date, and the recognition of a liability for the goods or services yet to be delivered. This circumstance meets the definition of an executory contract proposed in the Exposure Draft, and since neither party has fulfilled any of their obligations, it would not result in the recognition of an asset and a liability.	In general, the requirements in IFRS 15 are consistent with the concepts on executory contracts in the revised *Conceptual Framework*. The question raised by the respondent comes down to whether a contract is still executory after the due date for performance by one party if that party did not perform when due. The revised *Conceptual Framework* will not address that question. The presentation requirements in paragraphs 105–106 of IFRS 15 are explained in the Basis for Conclusions on that Standard. Paragraphs BC324–325 explain that the Board concluded that, after payment has become due, the entity's right to receive is unconditional and unconditional rights for consideration are presented separately as receivables. In addition, the staff note that Example 38 (Case B) that illustrates paragraphs 105 and 106 of IFRS 15 is limited in scope. It applies only to contracts that require payment in advance and applies to

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		those contracts only if, and while, the required advance payments are overdue.
A21	The concepts on unit of account in paragraph 4.62(b) of the Exposure Draft may not be compatible with the exemption for leases of low value assets. That is because the concepts set out in paragraph 4.62(b) would suggest that leases of low value assets should be recognised when they are material in total.	The revised *Conceptual Framework* requires the Board to consider the costs of providing information both in making recognition decisions and in selecting unit of account for recognition and measurement purposes. Accordingly, the recognition exemption in IFRS 16 for leases of low value assets for which the Board decided that the cost of recognition would not exceed the benefits (see IFRS 16, BC 98–104) is consistent with the revised *Conceptual Framework*.
A22	The guidance on the substance of rights and obligations is inconsistent with IFRS 9. This is because IFRS 9 (instrument E example in paragraph B4.1.13) requires that the applicable legislation is not taken into consideration in assessing the contractual terms of the financial asset.	A financial instrument is defined as a *contract* that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Accordingly, IFRS 9 applies to *contracts* that are within the scope of the Standard and, for the purposes of classification and measurement, analyses the contractual terms that give rise to cash flows. However, in assessing the contractual terms of the instruments, IFRS 9

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		considers the substance rather than simply the legal form of the contractual arrangements. Accordingly, IFRS 9 is consistent with the discussion of substance of rights and obligations that will be included in the revised *Conceptual Framework*.
	Chapter 6 *Measurement*	
A23	Some of the requirements in existing Standards are inconsistent with the measurement bases discussed in the Exposure Draft, for example: (a) the current treatment of deferred pension liabilities in IAS 19 is not consistent with either the historical cost or current value measurement bases described in the Exposure Draft; (b) net realisable value is an example of value in use measurement, so in accordance with the Exposure Draft it must be discounted which is inconsistent with the existing requirements in IAS 2 *Inventories*; or	The staff acknowledge that not all specific measurement bases developed in existing Standards would fit neatly into the broad categories of measurement bases that will be discussed in the revised *Conceptual Framework*. However, that is not inconsistent with the revised *Conceptual Framework*. The revised *Conceptual Framework* will state that, if necessary and appropriate, Standards may set out how the selected measurement basis is to be implemented. This may include: (a) specifying the techniques to be used to estimate a measure on a particular measurement basis; (b) specifying a proxy measurement basis, for example

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	(c) lack of discounting of deferred tax assets and liabilities applying IAS 12 *Income Taxes* or assets and labilities in accounting for government grants applying IAS 20 is inconsistent with the discussion in the Exposure Draft.	when the proxy is likely to provide similar information to the selected measurement basis at less cost; or (c) modifying a measurement basis.
A24	The equity method of accounting in IFRS 11 and IAS 28 appears to be inconsistent with the proposed concepts on measurement.	As discussed in paragraph BCIN.23 of the Basis for Conclusions on the Exposure Draft, the concepts relating to the equity method are outside of the scope of the revised *Conceptual Framework*. As noted in that paragraph, those concepts would be best dealt with if the Board were to carry out a project that considered revising Standards on the equity method.
A25	It is unclear from the discussion in the Exposure Draft if a change between the current value categories (value in use and fair value) should be treated as a change in accounting policy. If so, IAS 8 would require retrospective application which is inconsistent with the requirements in IAS 36 *Impairment of Assets*.	'Recoverable amount' discussed in IAS 36 is not a distinct measurement basis—and therefore would not be addressed in the revised *Conceptual Framework*—but rather an umbrella term that reflects distinct measurement bases that are used in different circumstances. For example, IAS 36 specifies that the recoverable amount is represented by the higher of value in use or fair value less costs to sell. If the relationship between these amounts

	Respondents' comments and questions	Staff responses
		changes so that a different measurement basis is used to reflect the recoverable amount, that in the staff's view would not constitute a change in accounting policy—the policy remains to state the asset at the recoverable amount.
A26	The discussion of amortised cost in the Exposure Draft is inconsistent with IFRS 9. The Exposure Draft refers to amortised cost (as part of historical cost) on the basis of an 'entry price' notion, while IFRS 9 uses the 'exit price' notion within its definition of amortised cost. This is because the definition of amortised cost in IFRS 9 includes a reference to the amount at which the financial instrument is measured on initial recognition which is fair value adjusted for transaction costs.	The staff do not agree that, just because initial measurement of financial instruments is at fair value adjusted for transaction costs, amortised cost in IFRS 9 is an 'exit price' notion. Except for particular trade receivables, IFRS 9 requires that initial measurement of all financial instruments is at fair value adjusted for transaction costs where applicable. Subsequent to initial recognition, some financial instruments are measured at fair value whereas others are measured at amortised cost. The calculation of amortised cost of a financial instrument is anchored in the amount recorded on initial recognition and adjusted for repayments, cumulative amortisation under the effective interest rate method (using an original effective interest rate) and, for financial assets, any loss allowance. However, amortised cost, unlike fair value,

	Respondents' comments and questions	Staff responses
		does not get adjusted to reflect changes in conditions such as movements in market interest rates or other current market conditions. Accordingly, there is no inconsistency between IFRS 9 and the revised *Conceptual Framework*.
A27	Table 6.1 identifies changes in estimates as information that is provided in the statement(s) of financial position only for assets and liabilities measured at current value. That is inconsistent with IFRS 9 (paragraph B5.4.6) that requires an adjustment to the carrying amount of a financial instrument measured at amortised cost that arises from revised payments estimates to be recognised in profit or loss.	The Exposure Draft stated and the revised *Conceptual Framework* will state that the historical cost of financial assets and financial liabilities is adjusted for changes in estimates of cash flow. The staff will consider in drafting how to clarify this point.
A28	It is unclear how translation of assets and liabilities recognised at historical cost by a foreign operation as defined by IAS 21 *The Effects of Changes in Foreign Exchange Rates* would fit into the two measurement bases discussed in the Exposure Draft.	As discussed in paragraph BCIN.23 of the Basis for Conclusions on the Exposure Draft, the concepts relating to the translation of amounts denominated in foreign currency are outside of the scope of the revised *Conceptual Framework*. As noted in that paragraph, those concepts would be best dealt with if the Board were to carry out a project that considered revising the Standard

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		on the effect of foreign exchange rates.
	Chapter 7 *Presentation and disclosure*	
A29	The Exposure Draft makes a distinction between the statements of financial position and financial performance and 'other parts of financial statements'. This is inconsistent with IAS 1 *Presentation of financial statements* that sets out that a complete set of financial statements includes a statement of financial position, statement(s) of financial performance, a statement of changes in equity, a statement of changes in cash flows, notes and comparative information and explains that all financial statements are required to be presented with equal prominence.	As discussed in paragraph 25 of the September 2016 Agenda Paper 10C, the Exposure Draft only refers to the statement of financial position and the statement(s) of financial performance because these statements provide a summary of the recognised elements. That does not imply that the Board views some statements as being of less importance than others. Accordingly, there is no inconsistency between the discussion that will be included in the revised *Conceptual Framework* and the requirements in IAS 1.
A30	In contrast to the presumption proposed in the Exposure Draft that income and expenses included in OCI will be recycled to the statement of profit or loss, recycling does not occur for: (a) gains and losses on equity instruments measured at fair	The revised *Conceptual Framework* would allow OCI items not to be recycled. It will state that income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur or the amount that should be recycled.

	Respondents' comments and questions	Staff responses
	value though OCI applying IFRS 9; (b) fair value movements relating to changes in a liability's own credit risk applying IFRS 9; (c) actuarial gains and losses for defined benefit plans applying IAS 19; (d) changes in revaluation surplus for property, plant and equipment and intangible assets under the revaluation model applying IAS 16 and IAS 38 *Intangible Assets*.	
A31	Different treatment of fair value changes applying IAS 16 (reported in OCI) and IAS 40 *Investment Property* (reported in profit or loss) is inconsistent with the proposed rebuttable presumption that all income and expenses should be included in profit or loss.	The revised *Conceptual Framework* would allow changes in current values of assets and liabilities to be included in either the statement of profit or loss or OCI. It will set out a principle that income and expenses should be included in the statement of profit or loss unless the relevance or faithful representation of the information provided in the statement of profit or loss for the period would be enhanced by including a change in the current value of an asset or a liability in OCI.

	Respondents' comments and questions	Staff responses
A32	Transferring accumulated OCI directly to retained earnings without recycling it though profit or loss applying IAS 16 is inconsistent with the rebuttable presumption on recycling proposed in the Exposure Draft.	IAS 16 does not require but permits entities to transfer accumulated OCI to retained earnings. There is nothing in the revised *Conceptual Framework* that would contradict that provision of IAS 16. In particular, as noted in A30, the revised *Conceptual Framework* would allow OCI items not to be recycled.
A33	The availability of accounting options for preparers to recognise income or expense in OCI instead of recognising them in profit or loss (for example, an option to include changes in fair value of eligible investments in equity instruments in profit or loss or OCI) appears to be inconsistent with the proposals in the Exposure Draft.	The revised *Conceptual Framework* will state that only the Board can make decisions about including changes in current values in OCI. Those decisions could either require or permit entities to include changes in current values in OCI. In the latter case, an entity would ultimately be able to make the classification decision. That is consistent with the discussion that will be included in the revised *Conceptual Framework*.
	Definitions	
A34	The definition of general purpose financial statements in the Exposure Draft differs in some ways from how this term is	IAS 1 defines general purpose financial statements as follows: General purpose financial statements (referred to as

	Respondents' comments and questions	Staff responses
	defined in Standards.	'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. The definition of general purpose financial statements in the Glossary (Appendix B of the Exposure Draft) is based on paragraphs 3.2 and 3.4 of the Exposure Draft: General purpose financial statements is a particular form of general purpose financial report that provides information (about the reporting entity's assets, liabilities, equity, income and expenses) that is useful to the primary users of those statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. The definition of general purpose financial statements in the Glossary is broadly consistent with the definition in IAS 1, but it describes in more detail which needs of primary users they are intended to meet and which information should be included

	Respondents' comments and questions	Staff responses
		to meet those needs.
A35	The definition of material information in the Exposure Draft differs in some ways from how this term is defined in Standards.	The existing definition of materiality in IAS 1 and IAS 8 is as follows: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. The definition of materiality proposed for the revised *Conceptual Framework* (and tentatively confirmed by the Board in October 2016) is as follows: Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of financial information about a specific reporting entity. These definitions are consistent in substance: both focus on whether omitting or misstating information could influence

	Respondents' comments and questions	**Staff responses**
		decisions of users. In addition, as part of the Disclosure Initiative the Board is considering clarifications to the definition of materiality in IAS 1. In December 2016, the Board tentatively decided to accelerate this work and publish an Exposure Draft on the definition of materiality. The definition of materiality both in IAS 8 and the revised *Conceptual Framework* may be updated depending on the outcome of that project.
A36	The definition of consolidated financial statements in the Exposure Draft differs in some ways from how this term is defined in Standards.	As discussed in A2, the Exposure Draft does not define consolidated financial statements. Rather, it discusses the relationship between consolidated and unconsolidated financial statements and the boundary of a reporting entity based on the notions of direct and indirect control (paragraph 3.15 of the Exposure Draft). As discussed in paragraph 34 of September 2016 Agenda Paper 10B *The reporting entity*, the concepts underlying the notions of 'direct' and 'indirect' control are consistent with the requirements of IFRS 10 to prepare

	Respondents' comments and questions	Staff responses
		consolidated financial statements. However, to avoid confusion about the terms 'direct' and 'indirect' control the Board tentatively decided at its September 2016 meeting not to use those specific terms in the revised *Conceptual Framework*.
A37	The definition of constructive obligation in the Exposure Draft differs in some ways from how this term is defined in Standards.	Several IFRS Standards refer to constructive obligations. They refer to obligations that arise from an entity's (customary/past/informal) practices, policies or statements, and specify when practices, policies or statements give rise to obligations. For example: (a) IFRS 15, paragraph 24: if promises implied by customary business practices, published policies or specific statement create a valid expectation of the customer; (b) IAS 19, paragraph 61: if the entity has no realistic alternative to but pay employee benefits under a defined benefit plan, for example if a change in the entity's informal practices would cause unacceptable damage to

	Respondents' comments and questions	Staff responses
		the entity's relationship with employees; or (c) IAS 37 paragraph 10: if as a result of the entity's practices, policies or statement, it has indicated to other parties that it will accept particular responsibilities, and created a valid expectation on the part of other parties that it will discharge those responsibilities. All of these conditions can be viewed as ways of interpreting the more general concept set out in paragraph 4.34 of the Exposure Draft, ie that an entity may have obligations arising from its practices, policies or statements *if it has no practical ability to act in a manner inconsistent with those practices, policies or statements*. Accordingly, we do not think there is an inconsistency between the proposed concepts and descriptions of constructive obligations in existing IFRS Standards.
A38	The definition of derecognition in the Exposure Draft differs in some ways from how this term is defined in Standards.	The only differences between the definition proposed for the revised *Conceptual Framework* and an existing definition in

	Respondents' comments and questions	**Staff responses**
		IFRS 9 is that the proposed definition: (a) refers to *all* assets and liabilities and not only to financial assets and liabilities; and (b) allows for part of an asset or a liability to be derecognised. Hence, the proposed definition of derecognition is broader than the definition in IFRS 9, as the latter provides Standards-level guidance. The staff think that the existing definition is compliant with the proposed definition and cannot identify critical inconsistencies that would cause any practical problems applying either the revised *Conceptual Framework* or IFRS 9.
A39	The definitions of income, fair value and value in use in the Exposure Draft differ in some ways from how these terms are defined in Standards.	Appendix A to IFRS 15 defines income using the existing *Conceptual Framework* definition. The only differences between this existing definition and the definition proposed for the revised *Conceptual Framework* are drafting differences to align the wording of the revised income definition with the revised asset and liability definitions. The staff are of the view

	Respondents' comments and questions	Staff responses
		that those minor differences would not cause any practical problems in applying IFRS 15. Similarly, for fair value and value in use, the staff think that existing Standards use definitions that reflect the concepts that will be included in the revised *Conceptual Framework*. Specifically, fair value reflects the perspective of a market participant and value in use relies on entity-specific inputs (even though the time value of money is represented by the current market risk-free rate of interest).

Appendix B Discussion of Inconsistencies in the Exposure Draft

A2. This appendix includes the paragraphs from the Basis for Conclusions on the Exposure Draft that discuss inconsistencies between the proposals in the Exposure Draft and Standards (paragraphs BCE.2–BCE.24).

Inconsistencies with existing Standards

BCE.2 Some respondents to the Discussion Paper suggested that the IASB should undertake a review of existing Standards to identify any inconsistencies with the proposals for a revised *Conceptual Framework*. They stated that such a review would enable them to better understand the implications of the proposals.

BCE.3 The IASB reviewed existing and proposed Standards, other than those to be superseded before the revised *Conceptual Framework* becomes effective.

BCE.4 In doing this, the IASB has not attempted to predict what judgements it would now make if it were to set requirements in existing Standards applying the concepts proposed in the Exposure Draft for:

(a) judgements on recognition and measurement requirements; and

(b) reclassification to the statement of profit or loss of income and expenses included in OCI in an earlier period.

BCE.5 In addition, the IASB has not identified the following requirements as being inconsistent with the proposals for the *Conceptual Framework*:

(a) requirements that, although consistent with the concepts now proposed, are currently explained using different concepts in the Basis for Conclusions; and

(b) requirements that seem to have been driven by cost-benefit considerations (ie the cost constraint).

BCE.6 Paragraphs BCE.7–BCE.11 discuss the main inconsistencies between existing Standards and the proposed *Conceptual Framework* that were identified in the course of the review. Paragraphs BCE.12–BCE.21 discuss minor inconsistencies that would arise from the proposed changes to the *Conceptual Framework*. Paragraphs BCE.22–BCE.24 explain that some existing inconsistencies would be eliminated by the newly proposed concepts.

Main inconsistencies

IAS 32 *Financial Instruments: Presentation*

BCE.7 Some of the classification requirements of IAS 32 *Financial Instruments: Presentation* are inconsistent with both the existing *Conceptual Framework*'s definitions and the proposed definitions of liability and equity. In particular, these inconsistencies arise from:

(a) the share-settlement clauses of the definitions of financial assets and financial liabilities. Situations to which these clauses apply include, for financial liabilities:

 (i) a non-derivative for which the entity is, or may be, obliged to deliver a variable number of the entity's own equity instruments; and

 (ii) a derivative that will, or may, be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.[1]

 These instruments are classified as liabilities even though obligations that an entity must settle, or may have the right to settle, by issuing its own equity instruments, do not meet either the existing or the proposed *Conceptual Framework*'s definition of a liability.

(b) the exceptions for puttable instruments contained in paragraphs 16A–16D of IAS 32. These result in some financial instruments being classified as equity, even though they meet the *Conceptual Framework*'s definition of a liability.

BCE.8 As discussed in paragraphs BC4.93–BC4.103, the IASB proposes not to make changes in this area at this stage. The IASB will further explore how to distinguish liabilities from equity claims, including consideration of whether to add to its agenda a project to amend the definitions of a liability and equity, in its Financial Instruments with Characteristics of Equity research project.[2]

IFRIC 21 *Levies*

BCE.9 As discussed in paragraph BC4.65, the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted in IFRIC 21 *Levies* are inconsistent with the proposed new concepts for identifying liabilities.

BCE.10 An entity must often conduct a series of activities before it is required to pay a levy. IFRIC 21 identifies the last event in the series as the event that gives rise to a liability. The IFRS Interpretations Committee ('the Interpretations Committee') concluded that, because economic compulsion does not create a present obligation, earlier events in the series do not give rise to a liability even if the entity would have to take unrealistic actions to avoid the obligations. In contrast, applying the IASB's proposed guidance on a present obligation, an entity would identify a liability when the entity has no practical ability to avoid a transfer of economic benefits and the obligation has arisen from past events; in other words, the entity has received benefits or conducted activities that establish the extent of the obligation. Accordingly, a liability for some levies could be identified earlier by applying the *Conceptual Framework* proposals than by applying IFRIC 21.

BCE.11 The IASB is considering, as part of its research agenda, whether it should take on an active project to consider amending aspects of IAS 37.[3] That research will take into account the inconsistencies between IFRIC 21 and the proposed new concepts for identifying present obligations.

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[1] See paragraph 11 of IAS 32.

[2] For the IASB to add a project to its active agenda, a formal agenda decision would be required.

[3] For the IASB to add a project to its active agenda, a formal agenda decision would be required.

Minor inconsistencies

Quotes of existing definitions

BCE.12 Some existing Standards quote existing *Conceptual Framework* definitions:

(a) IAS 37 quotes the existing definition of a liability; and

(b) IAS 38 *Intangible Assets* quotes the existing definition of an asset.

BCE.13 The implications for IAS 37 are discussed in paragraph BCE.11. The IASB is not proposing to update the quotation in IAS 38 at this time. It has considered possible implications for this Standard of the proposed changes in the definitions of assets and concluded that the changes would not cause any practical problems in applying the Standard. The IASB's aim in revising the definitions in the *Conceptual Framework* was to provide more clarity, not to fundamentally change the way in which the definitions are applied in any existing Standard.

Presentation and disclosure

BCE.14 In the Exposure Draft, the IASB notes the benefits of including a specific presentation and disclosure objective in a Standard (see paragraph 7.16 of the Exposure Draft). Recent Standards already include an objective for disclosure requirements. However, many older Standards do not contain such an objective.

BCE.15 The Exposure Draft proposes that financial statements should include forward-looking information only if it provides relevant information about the assets and liabilities that existed at the end of, or during, the period (see paragraph 7.4 of the Exposure Draft). IAS 19 *Employee Benefits* requires entities to disclose expected contributions to the defined benefit or the defined contribution plan for the next annual reporting period. This requirement is arguably inconsistent with the approach to forward-looking information proposed in the Exposure Draft.

BCE.16 The IASB proposes not to address these inconsistencies in the *Conceptual Framework* project. A review of disclosure requirements in existing Standards to identify and assess redundancies, conflicts and duplication is included in the Disclosure Initiative (see paragraph BC7.2(b)).

Faithful representation vs reliability

BCE.17 In existing Standards the term 'reliability' is used in two different ways:

(a) to mean that the level of measurement uncertainty associated with an item is tolerable. This use of the word is consistent with the recognition criteria in the existing *Conceptual Framework* (an item that meets the definition of an element is recognised only if it is probable that there will be a flow of economic benefits and it has a cost or value that can be measured with reliability).

(b) in a broader sense, as a qualitative characteristic explained in the pre-2010 *Framework* as encompassing freedom from error, neutrality, prudence, completeness and substance over form.

BCE.18 The IASB proposes not to reinstate the term reliability as a label for the qualitative characteristic now called 'faithful representation'. However, it considers that there is much in common between the qualitative characteristics of reliability (pre-2010 *Framework*) and the description of faithful representation proposed in the Exposure Draft (see paragraphs BC2.21–BC2.25).

BCE.19 The IASB considered whether to replace the term reliability with the term faithful representation in the Standards that refer to reliability as a qualitative characteristic. However, the IASB concluded that until it completes the revised *Conceptual Framework*, it would be premature to consider whether to propose such amendments. Similarly, it would be premature to consider whether to propose replacing the term reliability in the Standards that use the term to refer to a tolerable level of measurement uncertainty.

IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

BCE.20 Two existing Standards—IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—rely directly on the guidance in the *Conceptual Framework* and act as a direct link between the Standards and the *Conceptual Framework*. IAS 1 prescribes the basis for preparation of general purpose financial statements. It requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework*, to achieve fair presentation in financial statements. IAS 8 provides guidance to help entities develop and apply accounting policies when there are no specifically applicable Standards.

BCE.21 The guidance in these Standards is based on the qualitative characteristics described in the *Conceptual Framework* and, hence, the concepts in the *Conceptual Framework* are essential to the application of these Standards. When the revised *Conceptual Framework* is finalised, the IASB will consider whether to develop proposals to amend IAS 1 and IAS 8 to reflect the revised *Conceptual Framework*[4].

Existing inconsistencies

BCE.22 Some existing inconsistencies between the Standards and the existing *Conceptual Framework* would be eliminated by the proposals in the Exposure Draft.

BCE.23 For example, the existing *Conceptual Framework* specifies that an asset or a liability should be recognised only if it is probable that future economic benefits will flow to or from the entity. The IASB has not applied this recognition criterion in some Standards—it decided that recognition of some assets and liabilities (such as some derivatives) meets the objectives of financial reporting irrespective of the likelihood of future cash flows. Such requirements are inconsistent with the existing *Conceptual Framework* recognition criteria, but are possible outcomes of the proposed new *Conceptual Framework* recognition criteria. (As noted in paragraph BCE.4, the IASB has not attempted to predict what judgements it would now make if it were to set requirements in existing Standards applying the concepts now proposed.)

BCE.24 The IASB emphasises that its intention in this project is to provide a coherent basis for developing future Standards, not to eliminate existing inconsistencies. In fact, as discussed in paragraphs BCE.7–BCE.21, the IASB acknowledges that the proposals in the Exposure Draft would create some new

[4] The Board discussed amendments to IAS 1 and IAS 8 at its January 2017 meeting.

inconsistencies. Nevertheless, some concepts in recent Standards-level projects reflect the IASB's most developed thinking on these matters, and that thinking also flows into the proposals in the Exposure Draft. It is not the IASB's intention to legitimise existing Standards or practice.