

STAFF PAPER

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IASB Meeting

Project	Conceptual Framework		
Paper topic	Effects of the revised <i>Conceptual Framework</i>		
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Purpose of the paper

1. This paper:
 - (a) summarises the work performed by the staff on assessing the effects of the revised *Conceptual Framework* during redeliberations of the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft), and
 - (b) asks whether the Board is satisfied with that work.

Structure of the paper

2. This paper is structured as follows:
 - (a) discussion in the Exposure Draft (paragraphs 3–5);
 - (b) approach to analysing the effects of the revised *Conceptual Framework* (paragraphs 6–10);
 - (c) effects of the revised definitions of assets and liabilities (paragraphs 11–13);
 - (d) effects of the revised *Conceptual Framework* on preparers (paragraphs 14–24); and

- (e) inconsistencies between the revised *Conceptual Framework* and existing Standards (paragraphs 25–26).

Discussion in the Exposure Draft

3. The summary and invitation to comment on the Exposure Draft discussed the immediate and future effects of the revised *Conceptual Framework* and stated that:
 - (a) a more complete, clear and updated set of concepts will help the Board to develop Standards that better meet the needs of investors;
 - (b) the *Conceptual Framework* will affect financial statements of entities:
 - (i) directly if they use the *Conceptual Framework* to develop or select accounting policies.
 - (ii) indirectly when they implement new or revised Standards based on the revised *Conceptual Framework*.
 - (c) the Board will not automatically change existing IFRS Standards as a result of the revisions to the *Conceptual Framework* simply because there is an inconsistency with the revised *Conceptual Framework*. Rather, any decision to amend an existing Standard would require the Board to go through its normal due process for adding a project to its agenda and developing an Exposure Draft and an amendment to that Standard.

4. The Basis for Conclusions on the Exposure Draft discussed:
 - (a) inconsistencies between the proposals in the Exposure Draft and existing Standards identified by the staff (paragraphs BCE.2–BCE.24). That analysis was included in the Exposure Draft in order to help interested parties better understand the implications of the proposals.
 - (b) transition to, and the effective date of, the revised *Conceptual Framework* (paragraphs BCE.25–BCE.31).

5. To achieve transition to the revised *Conceptual Framework* for entities that develop their accounting policies by reference to the *Conceptual Framework*, the separate Exposure Draft *Updating References to the Conceptual Framework* (the Updating References Exposure Draft) proposed to:

- (a) replace the references to the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and other Standards with the reference to the *Conceptual Framework*;
- (b) update related quotes; and
- (c) remove clarifying footnotes.

Approach to analysing the effects of the revised *Conceptual Framework*

6. In April 2016, the Board discussed the approach to analysing the effects of the revised *Conceptual Framework* (see [Agenda Paper 10B](#)). The Board noted that:

- (a) some respondents to the Exposure Draft asked the Board to undertake a more extensive analysis of the implications of the proposals for future Standards, in particular, in relation to proposed changes in the definitions of assets and liabilities;
- (b) some respondents expressed concerns about potential unintended consequences of the proposal to replace the references to the *Framework* in the affected Standards with the reference to the *Conceptual Framework*; and
- (c) while many respondents agreed with the Board’s approach to dealing with inconsistencies, many also suggested other potential inconsistencies in addition to those identified in the Exposure Draft.

7. The Board decided that, in analysing the effects of the revised *Conceptual Framework*, the staff would not be asked to perform a comprehensive analysis of:

- (a) the effects of the revised *Conceptual Framework* on future Standard-setting; or
- (b) inconsistencies between the revised *Conceptual Framework* and existing Standards.

8. However, the Board requested the staff to:

- (a) perform a more extensive analysis of the effects of the proposed definitions of assets and liabilities and the concepts supporting those definitions (see paragraphs 11–13);
 - (b) perform a more detailed analysis of the effects of the revised *Conceptual Framework* for preparers (see paragraphs 14–24); and
 - (c) analyse additional inconsistencies between the revised *Conceptual Framework* and existing Standards that have been suggested by respondents (see paragraphs 25–26).
9. The following sections summarise the work performed in response to the Board’s request. As discussed in those sections, the outcome of that work has been reflected in the Board’s tentative decisions on relevant topics.
10. A discussion of the work performed to assess the effects of the revised *Conceptual Framework* will be included in the Feedback Statement on the revised *Conceptual Framework*.

Effects of the revised definitions of assets and liabilities

11. The staff’s exercise to test the proposed definitions of assets and liabilities and the concepts supporting those definitions has involved:
- (a) analysing the outcome of applying those definitions and supporting concepts to 23 illustrative examples; and
 - (b) identifying ways in which the proposed definitions and particular supporting concepts could help the Board reach decisions in some of its current projects.
12. The illustrative examples developed by the staff were discussed with participants at the World Standard-setters Meeting in September 2016. The results of that discussion were presented to the Board in October 2016. The staff analysis and conclusions are set out in October 2016 Agenda Paper 10C *Testing the proposed asset and liability definitions—illustrative examples*.

13. The work carried out to test the definitions and the discussions at the World Standard-setters Meeting identified two matters for further discussion by the Board. These matters related to:
- (a) the meaning of ‘as a result of past events’—Comments made by participants at the World Standard-setters Meeting indicated that some people did not see the description proposed in the Exposure Draft as an intuitive interpretation of the phrase ‘as a result of past events’. Those comments reinforced similar concerns raised by some respondents to the Exposure Draft. At its meeting in November 2016 (see [Agenda Paper 10E](#)), the Board considered those concerns and tentatively decided to clarify the meaning of the phrase ‘as a result of past events’ in the definition of a liability in the revised *Conceptual Framework*.
 - (b) concepts on existence uncertainty—Illustrative Example 2.3 *A court case* discussed by participants at the World Standard-setters Meeting in September 2016 addressed a situation in which ten people died after a wedding, possibly as a result of food poisoning from products supplied by the entity. The staff expected participants to reach a conclusion that it is uncertain whether a liability exists in this example. However, the participants expressed a variety of opinions. As a result of these discussions, the Board considered at its November 2016 meeting (see [Agenda Paper 10E](#)) a number of improvements to the discussion of existence uncertainty.

Effects of the revised *Conceptual Framework* on preparers

14. In order to assess the likely effects of the revised *Conceptual Framework* on preparers, the staff have performed the following work:
- (a) reviewed the scope exclusions in Standards; and
 - (b) reached out to preparers and accounting firms to understand whether and when in practice entities develop their accounting policies by reference to the *Framework*.

15. The review of scope exclusions aimed to identify transactions and other events that are not covered by Standards and would therefore be accounted for based on other sources, including the *Framework*. The outreach with preparers and accounting firms aimed at narrowing down the list of scope exclusions to transactions and other events that are in practice accounted for by reference to the *Framework* and could therefore be affected by the revised *Conceptual Framework*.
16. The staff have also considered the feedback from respondents on the Updating References Exposure Draft. Many respondents supported the proposals in the Updating References Exposure Draft. However, some respondents expressed concerns about:
- (a) possible changes to the assets and liabilities qualifying for recognition in a business combination as a result of replacing the reference to the *Framework* in paragraph 11 of IFRS 3 *Business Combinations* (paragraphs 18–19);
 - (b) potential effects of replacing the reference to the *Framework* in paragraph 11 of IAS 8 on preparers’ accounting policies (paragraphs 20–22); and
 - (c) potential effects on disclosure of accounting policies as a result of updating the quote from the *Framework* describing users of financial statements in IAS 1 *Presentation of Financial Statements*, IAS 8 and IFRS 4 *Insurance Contracts* (paragraphs 23–24).
17. The work performed by the staff was discussed by the Board in November 2016 ([Agenda Paper 10G](#)) and January 2017 (Agenda Papers [10E](#) and [10F](#)).

Replacing the reference in paragraph 11 of IFRS 3

18. Respondents suggested that, in some cases, the application of the revised concepts could lead to changes to assets and liabilities qualifying for recognition in a business combination. Further, in post-acquisition accounting, such assets and liabilities would have to be accounted for applying respective Standards, which could lead to ‘day 2’ gains and losses. In the case of levies, this could have a material effect on the entity’s financial statements.

19. The Board acknowledged those concerns and tentatively decided to:
- (a) retain the reference to the *Framework* in paragraph 11 of IFRS 3; and
 - (b) start a project to make a narrow-scope amendment to that Standard.
Any such narrow-scope amendment would allow the replacement of the reference to the *Framework* in a way that would prevent unintended consequences.

Replacing the reference in paragraph 11 of IAS 8

20. Except as stated in paragraph 21, the outreach with preparers and accounting firms described in paragraphs 14–15 suggested that the scope of any changes to preparers' accounting policies as a result of replacing the reference to the *Framework* with reference to the *Conceptual Framework* in paragraph 11 of IAS 8 would likely be limited. This is for the following reasons:
- (a) most preparers do not develop accounting policies by reference to the *Framework* because most transactions are:
 - (i) covered by existing IFRS Standards;
 - (ii) accounted for based on other sources referred to in IAS 8;
or
 - (iii) exempt from applying the *Framework* in developing their accounting policies as required by paragraph 11 of IAS 8;
and
 - (b) in some areas the revised concepts will suggest similar accounting outcomes compared to the existing concepts.
21. However, the staff identified rate-regulated activities as one area where requiring entities to review their accounting policies as a result of replacing the reference to the *Framework* in IAS 8 could be unduly burdensome and lead to diversity in practice. In addition, it could result in two rounds of changes to accounting policies for some entities in a relatively short period of time.
22. Accordingly, the Board tentatively decided to replace the reference to the *Framework* in paragraph 11 of IAS 8 with a reference to the *Conceptual Framework*. However, the Board also decided to consider excluding rate-

regulated entities from applying that amendment to paragraph 11 of IAS 8. The staff will present an analysis of the issue at a future Board meeting.

Updating description of users of financial statements in IAS 1, IAS 8 and IFRS 4

23. Some respondents suggested that updating the description of users of financial statements in IAS 1, IAS 8 and IFRS 4 could result in preparers disclosing all accounting policies applied in preparing the financial statements instead of only disclosing the ‘significant’ accounting policies. The Board noted that at its December 2016 meeting, the Board decided to issue an Exposure Draft proposing clarifications to the definition of materiality in IAS 1, including aligning the description of users of financial statements with the *Conceptual Framework*. Such clarifications to IAS 1, if confirmed, would result in consequential amendments to IAS 8 and IFRS 4.
24. Accordingly, because this issue is being considered as part of a separate project, the Board tentatively decided to retain the existing description of users of financial statements in IAS 1, IAS 8 and IFRS 4.

Inconsistencies between the revised *Conceptual Framework* and existing Standards

25. The staff analysed potential additional inconsistencies between Standards and the revised *Conceptual Framework* suggested by respondents to the Exposure Draft. Those suggested inconsistencies, and the staff responses, are set out in Appendix A of Agenda Paper 10C for this month’s meeting. In addition, as discussed in that Agenda Paper, the staff reviewed the requirements of the new Standards and amendments to Standards that have been issued since the staff’s last review for potential inconsistencies prior to publishing the Exposure Draft.
26. The staff have not identified substantive inconsistencies between existing Standards and the revised *Conceptual Framework* other than those already discussed in the Exposure Draft.

Question for the Board

Is the Board satisfied with the work performed by the staff to assess the effects of the revised *Conceptual Framework*?