

# STAFF PAPER

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## IASB® Meeting

Project	Conceptual Framework		
Paper topic	Updating References Exposure Draft—proposed amendments		
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## Purpose of paper

1. A number of IFRS Standards refer to or quote from the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*). This paper discusses whether the Board should confirm the proposal in the Exposure Draft *Updating References to the Conceptual Framework* (the Updating References Exposure Draft) that those Standards should be updated to refer to or quote from the revised *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*).
2. This paper does not discuss transition provisions and effective date for these proposed amendments. They are discussed in Agenda Paper 10F *Updating References Exposure Draft—transition and effective date*.

## Summary of staff recommendations

3. The staff recommend:
  - (a) retaining the reference to the *Framework* in paragraph 11 of IFRS 3 *Business Combinations* and starting a project to make narrow-scope amendments to that Standard to replace the reference while preventing unintended consequences. This means dropping the proposal in the Updating References Exposure Draft to replace the reference in paragraph 11 of IFRS 3.

- (b) retaining the existing description of the assumed characteristics of users of financial statements and deleting the reference to the *Framework* in paragraph 7 of IAS 1 *Presentation of Financial Statements*, paragraph 6 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and paragraph IG16 of IFRS 4 *Insurance Contracts*. These changes would be made instead of updating the description and the reference to the *Framework* as proposed in the Updating References Exposure Draft.
- (c) confirming proposals in the Updating References Exposure Draft to:
  - (i) replace the reference to the *Framework* with the reference to the *Conceptual Framework* in paragraph 11 of IAS 8;
  - (ii) replace the remaining references to the *Framework* with references to the *Conceptual Framework* and update related quotations in IFRS 2 *Share-based Payment*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 1, IAS 8, IAS 34 *Interim Financial Reporting* and SIC-32 *Intangible Assets—Web Site Costs*; and
  - (iii) remove clarifying footnotes added after the revisions to the *Conceptual Framework* in 2010.

## Structure of paper

- 4. This paper is structured as follows:
  - (a) background (paragraphs 6–12);
  - (b) staff analysis:
    - (i) proposed amendment to paragraph 11 of IFRS 3 (paragraphs 14–22);
    - (ii) proposed amendment to paragraph 11 of IAS 8 (paragraphs 23–27);
    - (iii) proposed amendment to the description of the characteristics of users of financial statements in IAS 1, IAS 8 and IFRS 4 (paragraphs 28–33); and
    - (iv) other proposed amendments (paragraphs 34–39).

5. In addition, the paper includes two appendices:
  - (a) Appendix A summarises comments and suggestions on the specific amendments proposed in the Updating References Exposure Draft made by only one or a few respondents and provides the staff response; and
  - (b) Appendix B summarises further amendments suggested by respondents and provides the staff response.

## Background

### ***Proposals in the Updating References Exposure Draft***

6. In 1989, the International Accounting Standards Committee issued its *Framework*. In 2010, the Board revised some sections of the *Framework* and changed the title of the document to the *Conceptual Framework for Financial Reporting*. However, the main text of IFRS Standards that referred to the *Framework* was not amended to reflect this change in the title. Instead, clarifying footnotes were included after some, but not all, references to the *Framework*.
7. In developing the Exposure Draft *Conceptual Framework for Financial Reporting* (the Conceptual Framework Exposure Draft), the Board concluded that once it completes the revision of the *Conceptual Framework*, IFRS Standards should contain references only to the revised version of the *Conceptual Framework*, not to any previous version.
8. Consequently, the Updating References Exposure Draft proposed:
  - (a) replacing references to the *Framework* in IFRS Standards with references to the *Conceptual Framework*, and removing related footnotes. The Board proposed replacing these references in all existing Standards, except those that would have been superseded when the revisions come into effect.
  - (b) updating some quotations from the *Framework* in the main text of existing Standards to make them consistent with the references mentioned in paragraph (a). The Board proposed retaining quotations from the

*Framework* if they are incorporated into the Standards without cross-referencing to the *Framework*.

### **Summary of feedback**

9. Most respondents supported the proposal to replace references to the *Framework* in principle, so as to avoid having several concurrent versions of the *Conceptual Framework*. Many respondents supported the specific proposals in the Updating References Exposure Draft.
10. However, some respondents expressed concerns about potential unintended consequences of some proposals. In particular, concerns were expressed 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;
  - (b) potential effects on preparers' accounting policies of replacing the reference to the *Framework* in paragraph 11 of IAS 8; and
  - (c) potential effects on disclosure of updating the quotation from the *Framework* describing the characteristics of users of financial statements in IAS 1, IAS 8 and IFRS 4.
11. Because of these concerns, some respondents, including some accounting firms, European standard-setters and a European regulator, suggested the Board undertake an effects analysis of the proposed amendments to assess whether any material unintended consequences could result from replacing references to the *Framework* and if so, how to address them. One accounting firm suggested the Board conduct outreach activities to identify and assess the likely effects of using the *Conceptual Framework* in developing accounting policies applying IAS 8.
12. A few respondents expressed a view that amendments should be made only if they do not affect current practice, ie if they are merely editorial. One Australian preparer representative body suggested that if a replacement of a reference might affect current practice, such changes should be subject to a separate due process once the changes to the *Conceptual Framework* are finalised.

## Staff analysis

13. This section discusses:
  - (a) the proposed amendment to paragraph 11 of IFRS 3 (paragraphs 14–22);
  - (b) the proposed amendment to paragraph 11 of IAS 8 (paragraphs 23–27);
  - (c) the proposed amendment to the description of the characteristics of users of financial statements in IAS 1, IAS 8 and IFRS 4 (paragraphs 28–33); and
  - (d) other proposed amendments (paragraphs 34–39).

### ***Proposed amendment to paragraph 11 of IFRS 3***

14. The Updating References Exposure Draft proposed updating the reference to the *Framework* in paragraph 11 of IFRS 3:

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the ~~*Framework for the Preparation and Presentation of Financial Statements*~~ *Conceptual Framework for Financial Reporting* at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs.

15. A few respondents expressed a concern that the proposed change might affect the recognition of assets acquired and liabilities assumed in a business combination because of the proposed changes to the definitions of an asset and a liability in the *Conceptual Framework*.
16. Paragraph BC113 of the Basis for Conclusions on IFRS 3 explains that the Board decided the appropriate first step in recognition is to apply the definitions of assets

and liabilities in the *Framework*. Meeting the definition of an asset or a liability and being part of the business acquired are set out as conditions for recognition.

17. At the October 2016 Board meeting the staff presented the results of an exercise to test the proposed asset and liability definitions and the concepts supporting those definitions. The testing suggested that in some cases, applying the revised definitions and supporting concepts may lead to conclusions inconsistent with existing IFRS requirements. Specifically, the testing suggested that a liability for some levies *might* be identified earlier applying the revised definitions than by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted by IFRIC 21 *Levies*.
18. Therefore, 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 IFRS Standards, which could lead to ‘day 2’ gains and losses. In the case of levies, recognition based on the revised definitions would lead to ‘day 2’ derecognition of a levy liability if, applying IFRIC 21, such levies are only recognised when qualifying conditions are met. This could have a material effect on the entity’s financial statements.
19. The proposals in the Updating References Exposure Draft were not intended to have a significant effect on the requirements of IFRS 3. Replacing the reference to the *Framework* in this Standard could lead to unintended consequences. Hence, the staff recommend retaining the reference at this stage.
20. In addition, because the Board’s intention is to have only one version of the *Conceptual Framework*, the staff recommend starting a project to make narrow-scope amendments to IFRS 3 that would allow the replacement of the reference to the *Framework* while preventing ‘day 2’ gains and losses.
21. The amendments to IFRS 3 would not have to be fundamental. IFRS 3 already contains specific requirements preventing specific ‘day 2’ gains and losses whereby some items are recognised either by applying recognition conditions in addition to

those described in paragraph 16, or by applying the requirements of other IFRS Standards<sup>1</sup>.

22. The intention would be to complete the IFRS 3 amendments expeditiously to avoid retaining two versions of the *Conceptual Framework* for much longer than the planned 18-month transition period. During the transition period, the Blue Book would include the 2010 version of the *Conceptual Framework*. The Red Book would include the revised version of the *Conceptual Framework*. After the revised *Conceptual Framework* becomes effective for preparers, both books would include the revised *Conceptual Framework*. However, until the narrow-scope amendments to IFRS 3 become effective, both books would need to make it clear that IFRS 3 requires entities to refer to the asset and liability definitions in the *Framework*, not in the *Conceptual Framework*<sup>2</sup>.

#### Question 1—replacing the reference in IFRS 3

Do you agree with the staff recommendation to:

- (a) retain the reference to the *Framework* in paragraph 11 of IFRS 3; and
- (b) start a project to make narrow-scope amendments to IFRS 3 that would allow the replacement of the reference to the *Framework* while preventing ‘day 2’ gains and losses?

#### **Proposed amendment to paragraph 11 of IAS 8**

23. Some respondents to the Updating References Exposure Draft and some participants in the outreach performed during the comment period on this Exposure Draft expressed concerns about the possible consequences of the proposal to replace the reference to the *Framework* in paragraph 11 of IAS 8. This change would affect preparers of financial statements who, in the absence of an IFRS Standard that specifically applies to a particular transaction or event, develop accounting policies by

<sup>1</sup> See paragraphs 14, 21–28 and B28–B40 of IFRS 3.

<sup>2</sup> To avoid confusion, an editorial footnote could be added to paragraph 11 of IFRS 3. It would explain that while the *Conceptual Framework* superseded the *Framework*, the definitions and supporting concepts in the *Framework* have to be applied for the purposes of this Standard. To help constituents find the guidance necessary for the application of the requirements of IFRS 3, a relevant extract from the *Framework* could be included at the end of both books.

reference to the *Framework*. Some respondents and outreach participants questioned whether this proposal could have a widespread effect on preparers, and whether preparers would face practical issues when updating their accounting policies to reflect the revised concepts in the *Conceptual Framework*.

24. In response to those concerns, the Board directed the staff to analyse the effects on preparers of financial statements of replacing references to the *Framework* in IAS 8. The staff presented the results of this work at the November 2016 Board meeting—see Agenda Paper 10G *Effects of the proposed changes to the Conceptual Framework on preparers*.
25. As discussed in that Agenda Paper, the work performed by the staff suggests that the scope of any changes to preparers' accounting policies as a result of replacing references to the *Framework* with references to the *Conceptual Framework* is likely to be limited for the following reasons:
  - (a) most preparers of financial statements do not develop accounting policies by reference to the *Framework* because most transactions are:
    - (i) covered by the existing Standards; or
    - (ii) accounted for applying other sources referred to in IAS 8; or
    - (iii) exempted from requirements to apply paragraph 11 of IAS 8.
  - (b) in some areas the revised concepts will suggest similar accounting outcomes to the existing concepts.
26. Accordingly, the staff recommend confirming the proposal in the Updating References Exposure Draft to replace the reference to the *Framework* in paragraph 11 of IAS 8 with the reference to the *Conceptual Framework*.
27. Please note that paragraphs 29–34 of Agenda Paper 10F for this month explain that a transition relief from reassessing their accounting policies may be needed for rate-regulated entities. The staff will address this issue at a future Board meeting.

#### Question 2—replacing the reference in IAS 8

Do you agree with the staff recommendation to confirm the proposal in the Updating References Exposure Draft to replace the reference to the *Framework* with the reference to the *Conceptual Framework* in paragraph 11 of IAS 8?



***Proposed amendment to the description of the characteristics of users of financial statements in IAS 1, IAS 8 and IFRS 4***

28. Paragraph 25 of the *Framework* stated that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and willingness to study the information with reasonable diligence’. When the *Framework* was updated in 2010 this statement was replaced by the statement in paragraph QC32 that ‘Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently’. The Board is proposing to carry the most recently updated statement forward to the revised *Conceptual Framework*<sup>3</sup>.
29. The description of materiality in paragraph 7 of IAS 1 and paragraph 6 of IAS 8 refers to paragraph 25 of the *Framework* and quotes its description of the assumed characteristics of users of financial statements. Paragraph IG16 of IFRS 4 reproduces the quotation from IAS 1. In these paragraphs, the Updating References Exposure Draft proposed replacing the reference to the *Framework* with the one to the *Conceptual Framework* and updating the corresponding quotation. In particular the Updating References Exposure Draft proposed the following changes to paragraph 7 of IAS 1:

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The ~~*Framework for the Preparation and Presentation of Financial Statements*~~ *Conceptual Framework for Financial Reporting* states in paragraph ~~25~~ 2.35 that ‘Financial reports are prepared for users ~~are assumed to~~ who have a reasonable knowledge of business and economic activities and ~~accounting and a willingness to study~~ who review and analyse the information ~~with reasonable diligence~~ diligently.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

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<sup>3</sup> See paragraph 2.35 of the Conceptual Framework Exposure Draft.

30. A few respondents disagreed with replacing the quotation because, in their opinion, users should be expected to have accounting knowledge in addition to knowledge of business and economic activities. These respondents expressed a particular concern about the effects of updating the quotation on the information disclosed by preparers of financial statements. Specifically, the respondents suggested that the amendment could result in preparers disclosing all accounting policies applied in preparing the financial statements instead of only the ‘significant’ accounting policies.
31. At the December 2016 Board meeting, the Board decided to issue an Exposure Draft proposing some clarifications to the definition of materiality in IAS 1<sup>4</sup>. Among other clarifications, the Board proposed adding to the definition the description of the characteristics of users of financial statements based on paragraph 2.35 of the Conceptual Framework Exposure Draft. If, as a result of this project, the proposed clarifications are made in IAS 1, appropriate consequential amendments will be made in IAS 8 and IFRS 4.
32. Because this issue is now considered part of a separate project, the staff recommend retaining the existing description of the characteristics of users instead of making the amendments described in paragraph 29. To achieve this, the staff recommend:
  - (a) retaining the existing description of the characteristics of users instead of updating the quotation containing this description from the *Framework*; and
  - (b) deleting the reference to the *Framework* in paragraph 7 of IAS 1, paragraph 6 of IAS 8 and paragraph IG16 of IFRS 4.
33. This would allow the removal of the reference to the *Framework* and ensure that the requirements of these Standards do not change until the project on clarifying the definition of materiality is completed.

### Question 3—updating the description of the characteristics of users

Do you agree with the staff recommendation to retain the existing description of the characteristics of users of financial statements and delete the reference to the *Framework* in paragraph 7 of IAS 1, paragraph 6 of IAS 8 and paragraph IG16 of

<sup>4</sup> See December 2016 Agenda Paper 11A *Proposed clarifications to the definition of materiality and due process summary*.

IFRS 4? This will be done instead of updating this description and the reference to the *Framework* as proposed in the Updating References Exposure Draft.

### ***Other proposed amendments***

34. A few respondents commented on other specific amendments proposed in the Updating References Exposure Draft. Their comments and suggestions and the staff's response are set out in Appendix A. Those comments did not suggest that other amendments proposed in the Updating References Exposure Draft could have a significant effect on the requirements of affected Standards. Therefore, the staff recommend:
  - (a) replacing the remaining references to the *Framework* in IFRS 2, IFRS 6, IAS 1, IAS 8, IAS 34 and SIC-32; and
  - (b) updating the related quotations.
35. In addition, some respondents suggested that the Board should make further amendments to IFRS Standards as a result of revising the *Conceptual Framework*. These suggestions and the staff's response are set out in Appendix B. Having considered those comments, the staff do not suggest making any further amendments to IFRS Standards.
36. Appendix A of the Updating References Exposure Draft *Removal of clarifying footnotes* suggested removing clarifying footnotes added after the revision to the *Conceptual Framework* in 2010. We have not received any objections to this suggestion. As the footnotes will not be necessary once the references to the *Framework* in the affected Standards are replaced, the staff recommend that the Board confirms the proposal to remove the clarifying footnotes.
37. The staff also reviewed whether the proposals in the Updating References Exposure Draft are up to date. We have not identified any other amendments that would be necessary. However, the staff note that the proposed amendment to SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* would no longer be needed provided that the Board agrees with the staff recommendation on the effective date of proposed amendments in Agenda Paper 10F. This is because this

Interpretation will be superseded by IFRS 16 *Leases* before the proposed effective date for this amendment.

38. The Updating References Exposure Draft proposed amending references to the *Framework* only in the main text of the existing IFRS Standards. The staff has since considered whether references to the *Framework* should be updated in Bases for Conclusions on the existing IFRS Standards. We concluded that it could be misleading to update them because Bases for Conclusions explain the Board's reasoning at the time a Standard is issued and so apply, and should refer to, the version of the *Framework* applicable at that time.
39. Another issue related to the Bases for Conclusions is that some Bases for Conclusions on IFRS Standards issued after the revision of the *Conceptual Framework* in 2010 refer to or quote from the *Conceptual Framework* issued in 2010. As the title of the *Conceptual Framework* will not change as a result of the current Conceptual Framework project, there will be cases when references to the *Conceptual Framework* in the Bases for Conclusions may confuse readers. For example, paragraph BC53 of IFRS 15 states that 'the IASB's *Conceptual Framework* description of revenue refers specifically to the 'ordinary activities of an entity'...' however, the revised *Conceptual Framework* will not include a discussion of revenue. Therefore, the staff suggest adding clarifying footnotes in cases where those references are potentially misleading or confusing.

#### Question 4—confirming other proposals

Do you agree to confirm the proposals in the Updating References Exposure Draft to:

(a) replace the remaining references to the *Framework* with references to the *Conceptual Framework* and update the related quotations in IFRS 2, IFRS 6, IAS 1, IAS 8, IAS 34 and SIC-32; and

(b) remove clarifying footnotes that were added after the revisions to the *Conceptual Framework* in 2010?

## Appendix A—Respondents’ suggestions and comments on amendments proposed in the Updating References Exposure Draft

This appendix summarises comments and suggestions on amendments proposed in the Updating References Exposure Draft made by only one or a few respondents and provides the staff response to them.

	Proposed amendment	Respondents’ suggestions and comments	Staff’s response
A1	<p>In Appendix A to IFRS 2, to amend the footnote to the definition of an equity instrument to reflect the revised definition of a liability:</p> <p>* The <i>Conceptual Framework for Financial Reporting</i> defines a liability as a present obligation of the entity <del>arising from</del> <u>to transfer an economic resource as a result of</u> past events, <del>the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (ie an outflow of cash or other assets of the entity).</del></p>	<p>Delete the footnote instead of updating it as it is unnecessary for the understanding of the definition of an equity instrument in IFRS 2. The definition of an ‘equity instrument’ in IFRS 2 is based on the definition in paragraph 11 of IAS 32 <i>Financial Instruments: Presentation</i> and in IAS 32 it does not have a related footnote with the definition of a liability.</p>	<p>It is not in the scope of the Conceptual Framework project to propose deleting the footnote in IFRS 2. The aim of the Updating References Exposure Draft was solely to replace the references to the <i>Framework</i> and update the quotations related to those references. Accordingly, the staff recommend confirming the proposal to update the footnote to reflect the revised definition of a liability. In addition, we think this change will cause no unintended consequences in applying the definition of an equity instrument in IFRS 2 because in case of any issues entities will be expected to apply the requirements of IAS 32.</p>

	Proposed amendment	Respondents' suggestions and comments	Staff's response
A2	<p>To update the reference to the <i>Framework</i> in IFRS 6:</p> <p>10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The <del><i>Framework</i></del> <i>Conceptual Framework for Financial Reporting</i> and IAS 38 <i>Intangible Assets</i> provide guidance on the recognition of assets arising from development.</p>	<p>Delete the reference to the <i>Framework</i> in IFRS 6 instead of updating it to avoid the need to refer to two definitions of an asset which may be confusing.</p>	<p>The recognition of an item in both IAS 38 and the <i>Framework</i> requires that the item meet the definition of an asset (intangible asset) and the recognition criteria. However, the staff do not think entities would need to refer to two definitions of an asset if the reference to the <i>Framework</i> is replaced because they would have to refer to either the definition in IAS 38 <i>or</i> the definition in the <i>Conceptual Framework</i> depending on whether the specific expenditure is within the scope of IAS 38. Consequently, the staff suggest confirming the proposal to update the reference to the <i>Framework</i>.</p>

	Proposed amendment	Respondents' suggestions and comments	Staff's response
A3	<p>To update the reference to the <i>Framework</i> in IAS 1:</p> <p>15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation 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 <i>Conceptual Framework</i>. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.</p>	<p>Amend the second sentence of paragraph 15 of IAS 1 to acknowledge the departure of certain IFRS from the definitions and recognition criteria in the <i>Conceptual Framework</i>, for example in IAS 37.</p>	<p>This is not a new issue: some existing IFRS Standards depart from some aspects of the existing <i>Framework</i>. Some other inconsistencies could appear as a result of revising the <i>Conceptual Framework</i>.</p> <p>Currently, there is no acknowledgement in IAS 1 of possible departures of IFRS Standards from the <i>Framework</i> definitions and recognition criteria. However, in its purpose and status section the <i>Framework</i> states that the Board recognises that in a limited number of cases, there may be a conflict between the <i>Conceptual Framework</i> and an IFRS Standard. In such cases, the requirement of a Standard prevails over those of the <i>Conceptual Framework</i>. A similar statement will be included in the revised <i>Conceptual Framework</i><sup>5</sup>.</p> <p>The staff do not think that the replacement of the reference to the <i>Framework</i> would significantly change the requirements of paragraph 15 of IAS 1. Therefore, we do not suggest including an acknowledgement of possible departures from aspects of the <i>Conceptual Framework</i> in IAS 1.</p>

<sup>5</sup> See the April 2016 IASB Update.

	Proposed amendment	Respondents' suggestions and comments	Staff's response
A4	<p>To update the references to the <i>Framework</i> and related quotations in IAS 34:</p> <p>31 Under the <del><i>Framework for the Preparation and Presentation of Financial Statements (the Framework)</i></del>, <i>Conceptual Framework for Financial Reporting (the 'Conceptual Framework')</i>, recognition is the 'process of <del>incorporating in the balance sheet or income statement</del> capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of an element <del>and satisfies the criteria for recognition</del>'. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.</p> <p>...</p> <p>33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they</p>	<p>The Updating References Exposure Draft proposes to update the term 'balance sheet' to 'statement of financial position' in paragraph 31 of IAS 34 but not in paragraph 33.</p>	<p>Following the revision of IAS 1 in 2007, IFRS Standards were amended to use the term 'statement of financial position' instead of the term 'balance sheet'. This amendment was not made in paragraphs 31 and 33 of IAS 34 because the term was part of the quotations from the <i>Framework</i>.</p> <p>The Updating References Exposure Draft proposed updating the quotation in paragraph 31 and incorporating a part of another quotation in paragraph 33 into IAS 34. The staff suggest that it would be appropriate to replace the term 'balance sheet' with the term 'statement of financial position' in paragraph 33 as well as in paragraph 31 to be consistent with references to this statement in IAS 34, other IFRS Standards and the <i>Conceptual Framework</i>.</p>



	Proposed amendment	Respondents' suggestions and comments	Staff's response
	are not recognised. <del>The Framework says that 'expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably... [The] Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.'</del> <sup>2</sup>		
A5	To update the reference to the <i>Framework</i> in SIC-32: 5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.88 and the <del>Framework</del> <i>Conceptual Framework for Financial Reporting</i> when the services are received.	Consider whether a direct reference to the <i>Conceptual Framework</i> in SIC-32 could provide an opportunity for an entity to rebut a presumption of inclusion of income and expenses in profit or loss which is intended for the Board only.	The staff note that the discussion in SIC-32 relates to <i>when</i> to recognise expenses not to <i>where</i> to present them. Accordingly, the staff think that replacing the reference in SIC-32 would cause no confusion about presentation of those expenses.  In addition, in June 2016 the Board tentatively decided that the <i>Conceptual Framework</i> will state that a decision about including income and expenses in other comprehensive income can be made <i>only</i> by the Board in setting Standards. As a result it will be clear that entities will not be able to make such decisions.

## Appendix B—Other amendments suggested by respondents

This appendix summarises other amendments suggested by respondents to the Updating References Exposure Draft and provides the staff response.

	Respondents' suggestions	Staff's response
B1	Existing Standards use different terms to describe the same statement(s)—‘income statement’, ‘statement of comprehensive income’ and ‘statement of profit or loss and other comprehensive income’. Different terminology should be used only if it applies to different statements. The Board should consider replacing these terms with the term ‘statement(s) of financial performance’ in the Standards to align the terminology with the <i>Conceptual Framework</i> .	<p>The staff acknowledge that different terms are used in the proposals for the <i>Conceptual Framework</i> and in existing Standards.</p> <p>In paragraph BC7.24 the Basis for Conclusions on the Conceptual Framework Exposure Draft explains:</p> <p style="padding-left: 40px;">The Exposure Draft uses the term ‘statement(s) of financial performance’ to refer to the combination of the statement of profit or loss and the statement of other comprehensive income.<sup>6</sup> The Exposure Draft uses this term because it is consistent with the term ‘statement of financial position’ that is used in existing Standards and is clearer than the term ‘comprehensive income’.</p> <p>Updating the terminology in the Standards is outside the scope of the Conceptual Framework project. Accordingly, the staff do not suggest replacing the terms ‘income statement’, ‘statement of comprehensive income’ and ‘statement of profit or loss and other comprehensive income’ with the term ‘statement(s) of financial performance’ in IFRS Standards.</p>

<sup>6</sup> The Exposure Draft does not specify whether the statement(s) of financial performance comprise a single statement or two statements.

	Respondents' suggestions	Staff's response
B2	<p>The Board should replace references to 'reliability' with references to 'faithful representation' to reflect the re-labelling of this qualitative characteristic in the <i>Conceptual Framework</i>. Specific suggestions included:</p> <ul style="list-style-type: none"> <li>• making this change in IAS 8 only;</li> <li>• making the change in all affected Standards no later than the effective date proposed for the Updating References Exposure Draft; and</li> <li>• including the footnotes to the term 'reliability' that are contained in the annotated guide to IAS 1 and IAS 8 (or the 'green' book) as footnotes in IAS 1 and IAS 8 until the Board decides to update these references. This footnote states 'the term 'faithful representation' in the <i>Conceptual Framework</i> encompasses the main characteristics that the previous <i>Framework</i> called 'reliability'.</li> </ul>	<p>As a result of the re-labelling of the qualitative characteristic of 'reliability' as 'faithful representation', the <i>Conceptual Framework</i> does not refer to the term 'reliability'.</p> <p>However, the Basis for Conclusions on the 2010 <i>Conceptual Framework</i> explains why the Board made a decision to re-label this qualitative characteristic. The Basis for Conclusions on the revised <i>Conceptual Framework</i> will also explain why the Board proposed not to reinstate the term 'reliability'.</p> <p>When developing the Conceptual Framework Exposure Draft, the Board considered whether to replace the term 'reliability' in IFRS Standards. The Board concluded that until it completes the revised <i>Conceptual Framework</i>, it would be premature to consider whether to propose such amendments.</p> <p>The aim of the Updating References Exposure Draft is to replace references to the <i>Framework</i> and related quotations. Updating the terminology is not part of this project. The Board also stated that IFRS Standards will not be amended simply because of any inconsistency with the revised <i>Conceptual Framework</i>. Accordingly, the staff suggest that the revision of the <i>Conceptual Framework</i> should not lead to an automatic change of the term 'reliability' in IFRS Standards, especially because in the Standards it is used to refer both to the qualitative characteristic of useful financial information and to a tolerable level of measurement uncertainty.</p> <p>References to reliability could be updated if the Board decides to perform a more comprehensive revision of IAS 1 in the future.</p>

	Respondents' suggestions	Staff's response
B3	The Board should update the guidance on fair presentation in paragraphs 15–17 of IAS 1 and the guidance on developing accounting policies in the absence of a Standard that specifically applies to a transaction in paragraph 11 of IAS 8 to refer not only to the definitions, recognition criteria and measurement concepts but also to the wider range of concepts that will be included in the revised <i>Conceptual Framework</i> .	Consistent with the staff's response in B2, updating the guidance on fair presentation in IAS 1 to reflect the wider range of concepts that will be included in the revised <i>Conceptual Framework</i> is outside the scope of this project.
B4	IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> should be amended to specify which version of the <i>Conceptual Framework</i> a first-time adopter should apply when electing to restate a past business combination in accordance with IFRS 3.	Paragraph 19 of this paper recommends not updating the reference to the <i>Framework</i> in IFRS 3 at this stage. The point made by the respondent will be considered if the Board agrees with the staff recommendation to make narrow-scope amendments to IFRS 3 that would allow to replace the reference.
B5	The definition of an intangible asset in IAS 38 depends on the definition of an asset. Clarify in IAS 38 that the definition of an asset is quoted from the 2010 <i>Conceptual Framework</i> for the purposes of this Standard to mitigate the risk of misunderstanding.	Because IAS 38 incorporates the definition but does not directly link it to the <i>Framework</i> , the staff suggest that no clarification in IAS 38 is necessary. In April 2016, the Board tentatively confirmed the status of the <i>Conceptual Framework</i> —it is not a Standard and it does not override specific Standards—so the definitions and other requirements in IAS 38 will prevail over the concepts in the <i>Conceptual Framework</i> .

	<b>Respondents' suggestions</b>	<b>Staff's response</b>
B6	It would be helpful to include more arguments from the October 2014 Agenda Paper 10E <i>Proposed amendments—Updating references to the Framework</i> in the Basis for Conclusions on the final amendments, to explain why the proposed changes are not expected to have a significant effect on the requirements of the affected Standards.	When issuing the proposed amendments, the staff will consider whether to amend the Bases for Conclusions on the affected Standards to explain the amendments.