

## STAFF PAPER

October 2014

## REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Cover paper		
CONTACT(S)	Jelena Voilo	jvoilo@ifrs.org	+44 207 246 6914

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this meeting**

1. At this meeting we are planning to discuss:
  - (a) feedback from September Accounting Standards Advisory Forum (ASAF);
  - (b) an update on developments in the Disclosure Initiative for areas where the work on the *Conceptual Framework* interacts with it;
  - (c) remaining aspects of measurement;
  - (d) a review of the existing Standards for potential inconsistencies with the *Conceptual Framework* Exposure Draft (the Exposure Draft); and
  - (e) due process.
2. This paper:
  - (a) provides a summary of feedback from the ASAF September meeting (paragraphs 3–11);
  - (b) provides an update on developments in the Disclosure Initiative for areas of interaction between the Initiative and the presentation and disclosure section of the *Conceptual Framework* (paragraphs 12–13 and Appendix A);
  - (c) describes the papers for this meeting, including an overview of recommendations (paragraphs 14–15); and
  - (d) describes next steps (paragraphs 16).

## Summary of feedback from the ASAF

3. On 25 September the ASAF discussed:
  - (a) update on the progress of the *Conceptual Framework* project;
  - (b) measurement; and
  - (c) implications of long-term investment for the *Conceptual Framework*.
4. The summary provided below is based on the notes prepared by the IASB staff and has not been approved by the ASAF yet.

### ***Update on the progress of the Conceptual Framework project***

5. ASAF members were provided with a summary of the tentative decisions made by the IASB in the course of redeliberations on the *Conceptual Framework* project. In addition, the IASB staff informed ASAF members about the discussion on the *Conceptual Framework* project at the September IASB meeting.
6. In general, ASAF members expressed support for the direction of the project. Some participants stated that the revised *Conceptual Framework* would better reflect the views of users of financial statements and would provide a better basis for understanding the IASB's thinking in developing Standards. That should help improve the acceptability of the Standards. However, some ASAF members expressed the following concerns:
  - (a) the IASB has not deliberated enough on more complex issues, such as the distinction between profit or loss and other comprehensive income (OCI), selection of measurement bases and definitions of liabilities and equity;
  - (b) some updates seem to be based on current thinking and existing Standards-level projects, rather than on the development of underlying concepts;
  - (c) the idea that prudence is consistent with neutrality may not be accepted by all constituents because some traditionally associate it with conservatism; and
  - (d) the business model should be used more widely by the IASB as a tool when developing Standards to achieve more meaningful statements of financial position and performance.

7. IASB members emphasised that the IASB is not trying in the *Conceptual Framework* project to justify its previous decisions in Standards, and is not limited by those decisions. Instead, it is focusing on the issues that have proved difficult in recent years and is trying to draw out the concepts underlying those decisions.

### **Measurement**

8. The purpose of this session was to seek feedback from ASAF members on the tentative decisions on measurement made by the IASB so far. ASAF members discussed:
- (a) cash flow-based measurement:
    - (i) some ASAF members agreed with the IASB’s tentative decision that the purpose of cash flow-based measurement techniques is normally to implement one of the measurement bases that will be described in the *Conceptual Framework*;
    - (ii) other ASAF members stated that cash flow-based measurement could be described as a third measurement category instead of merely as a technique to estimate other measurement bases. This could be particularly helpful for subsequent measurement and could help categorise measurements that take into account management’s estimates of future cash flows or use a discount rate that is specified in a way that does not correspond to one of the identified measurement bases;
  - (b) initial measurement vs subsequent measurement of assets and liabilities: one ASAF member suggested that measurement bases used for subsequent measurement could be divided into those that are determined wholly or partly by the original measurement and those that are completely independent of the original measurement. Initial measurement is normally relatively straightforward while subsequent measurement is more challenging and normally involves more adjustments; and

- (c) cost constraint: some ASAF members questioned whether it is necessary to mention the cost constraint explicitly in the measurement section of the *Conceptual Framework*.
9. In addition, in the course of the discussion one ASAF member asked about the assessment of how an asset or a liability contributes to future cash flows. That ASAF member asked whether this assessment should reflect only circumstances that exist currently, or whether it would also take into account possible future changes in the nature of business activities being conducted.

### ***Implications of long-term investment for the Conceptual Framework***

10. The IASB staff presented a paper on the implications of long-term investment for the *Conceptual Framework*.<sup>1</sup> The IASB had discussed this paper at the September IASB meeting. The IASB tentatively concluded that, when updated, the *Conceptual Framework* would provide sufficient tools for the IASB to be able to:
- (a) make appropriate standard-setting decisions if future projects were to consider how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment and where to present changes in the carrying amount of those investments (or liabilities); and
  - (b) address appropriately the needs of long-term investors in a reporting entity.
11. ASAF members supported the IASB's tentative conclusions and made the following comments:
- (a) the *Conceptual Framework* cannot focus specifically on the needs of long-term investors because its focus is general purpose financial reporting;
  - (b) standard-setters seek to achieve high-quality financial reporting standards through their due process and extensive consultation with constituents. Different needs of different user groups could be discussed in the course of such consultations; and

---

<sup>1</sup> The IFRS Advisory Council will discuss that paper on 14 October. The staff will inform the IASB of the outcome of that discussion.

- (c) it may be that long-term investors focus more than other investors do on information about long-term cash flows or stewardship. However, in general their information needs should not differ significantly from those of the currently identified primary user group – existing and potential investors, lenders and other creditors.

### **Presentation and disclosure—interaction with the Disclosure Initiative**

12. During deliberations on the presentation and disclosure section of the Exposure Draft the IASB identified a number of areas where the work on the *Conceptual Framework* interacts with the Disclosure Initiative.
13. Appendix A sets out those areas and notes developments in the Disclosure Initiative since the IASB discussed those areas. Having reviewed those developments, we do not think that the IASB needs to reconsider any of its tentative decisions on the presentation and disclosure section of the Exposure Draft.

### **Papers for this meeting**

14. Agenda Paper 10A provides a summary of tentative decisions made so far in the course of deliberations on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the ‘Discussion Paper’). It is provided for information purposes only and we do not plan to discuss it at the meeting.
15. The papers that we would like to discuss at this meeting are summarised in the table below.

<b>AP</b>	<b>Title</b>	<b>Content</b>
10B	Measurement – Measurement bases	<p>The purpose of this paper is to provide a revised working draft of the description and discussion of measurement bases for the <i>Conceptual Framework</i> Exposure Draft following the discussion of the topic in September 2014.</p> <p>The appendix to this paper provides a revised working draft of the description and discussion of measurement bases. The purpose of the description and discussion of the measurement bases in the appendix is to provide the IASB with information</p>

AP	Title	Content
		<p>about the different measurement bases to help it make a selection of a measurement basis at a Standards-level. In particular, the appendix describes:</p> <ul style="list-style-type: none"> <li>(a) the information that different measurement bases provide in the statement of financial position and the statement statement(s) of profit or loss and OCI;</li> <li>(b) the features of the measurement bases which may make them suitable in some situations but not in others.</li> </ul>
10C	Review of the existing Standards for potential inconsistencies with the <i>Conceptual Framework</i> Exposure Draft – Cover paper	This paper provides an overview of papers prepared to inform the IASB about the review of the existing Standards for potential inconsistencies with the Exposure Draft.
10D	Summary of potential inconsistencies between the existing Standards and the <i>Conceptual Framework</i> Exposure Draft	<p>This paper summarises potential inconsistencies between the requirements of existing Standards and the concepts that the IASB has tentatively decided to include in the Exposure Draft.</p> <p>The staff do not propose any changes to the existing Standards that contain potential inconsistencies identified in this paper. 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 for developing an Exposure Draft and an amendment to that Standard. However, the staff recommend that:</p> <ul style="list-style-type: none"> <li>(a) the IASB publishes an explanation of the implications of its proposed changes to the <i>Conceptual Framework</i>; and</li> <li>(b) it includes that explanation in the Basis for Conclusions accompanying the Exposure Draft.</li> </ul> <p>The paper includes a summary of points to be included in the explanation of the implications of the proposed changes to the <i>Conceptual Framework</i>.</p>
10E	Proposed amendments – Updating references to the Framework	A number of existing Standards refer directly to the <i>Framework for the Preparation and Presentation of Financial Statements</i> (or to the <i>Framework</i> ). The purpose of this paper is to discuss whether those Standards should be updated to refer to the revised <i>Conceptual Framework for Financial Reporting</i> (the <i>Conceptual Framework</i> ).

AP	Title	Content
		<p>The staff recommend that the IASB should replace some references the <i>Framework</i> with references to the <i>Conceptual Framework</i> in the text of the Standards to help:</p> <ul style="list-style-type: none"> <li>(a) improve clarity and readability of the Standards; and</li> <li>(b) avoid having two (or even three) co-existing versions of the framework document.</li> </ul>
10F	Proposed amendments – Clarifying the term ‘reliability’	<p>The purpose of this paper is to discuss whether the use of the term ‘reliability’ needs to be clarified in the Standards.</p> <p>The staff recommend:</p> <ul style="list-style-type: none"> <li>(a) replacing the term reliability with the term ‘faithful representation’ in the Standards that use the term reliability to refer to a qualitative characteristic of useful financial information; and</li> <li>(b) not making any changes in the Standards that use the term reliability to mean an acceptable level of measurement uncertainty.</li> </ul>
10G	Proposed amendments – IAS 1 and IAS 8	<p>The purpose of this paper is to discuss whether any amendments would be needed to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> following the revision of the <i>Conceptual Framework</i>.</p> <p>The staff recommend the following amendments to IAS 1 and IAS 8:</p> <ul style="list-style-type: none"> <li>(a) consistently with the recommendation in Agenda Paper 10F, replacing the term ‘reliability’ with ‘faithful representation’ in the paragraphs that refer to reliability as a qualitative characteristic of useful financial information;</li> <li>(b) consistently with the recommendation in Agenda Paper 10E, replacing references to the <i>Framework</i> with references to the <i>Conceptual Framework</i>;</li> <li>(c) updating the quotes from the <i>Conceptual Framework</i> included in these Standards;</li> <li>(d) updating the description of fair presentation in paragraph 15 of IAS 1 and the guidance for entities on developing accounting policies in paragraphs 10-11 of IAS 8 to reflect the updated qualitative characteristics in Chapter 3 and the wider range of concepts to be included in the revised <i>Conceptual Framework</i>;</li> <li>(e) updating paragraph 28 of IAS 1 to reflect the changes in the</li> </ul>

AP	Title	Content
		<p style="text-align: center;">guidance on recognition in the Exposure Draft; and</p> <p>(f) removing from paragraph 118 of IAS 1 the examples of measurement bases.</p>
10H	<p>Due process summary for the <i>Conceptual Framework</i> Exposure Draft</p>	<p>This paper:</p> <p>(a) summarises the background to the project;</p> <p>(b) considers the due process steps undertaken in developing the Exposure Draft;</p> <p>(c) asks the IASB for permission to ballot and about any intentions to dissent; and</p> <p>(d) discusses the comment period for the Exposure Draft.</p>

### Next steps

16. At the November meeting we plan to discuss any sweep issues that may arise in the course of drafting the Exposure Draft. We also plan to provide the IASB with an update on the *Conceptual Framework* project of the International Public Sector Accounting Standards Board (IPSASB). The IPSASB is planning to publish its *Conceptual Framework* at the end of October.



**Appendix A—Presentation and disclosure: interaction with the Disclosure Initiative**

<i>Conceptual Framework</i> discussions		Disclosure Initiative discussions
<b>Materiality</b>	<p>The IASB has tentatively decided not to propose any changes to the existing concept of materiality in the <i>Conceptual Framework</i>.</p> <p>In making that decision the IASB noted that materiality is being addressed in the Amendments to IAS 1 project and the Materiality research project.</p>	<p>At this month’s meeting the IASB will be considering the staff’s analysis of the proposed Amendments to IAS 1 (see Agenda Paper 11B(a)).</p> <p>In September 2014, the IASB discussed a summary of the results of its research on Materiality.</p>
<b>Communication principles</b>	<p>The IASB has tentatively decided to include in the <i>Conceptual Framework</i> Exposure Draft only those communication principles that are primarily targeted at the IASB.</p> <p>In making that decision, the IASB noted that the Principles of Disclosure research project would explore communication principles that are primarily targeted at entities and that some of the communication principles (regarding ordering and flexibility of the notes) were proposed in the Exposure Draft <i>Disclosure Initiative: proposed amendments to IAS 1</i>.</p>	<p>At this month’s meeting the IASB will be considering:</p> <p>(a) the staff’s analysis of the proposed Amendments to IAS 1 (see Agenda Paper 11B(a)); and</p> <p>(b) communication principles that are primarily targeted at entities (see Agenda Paper 11A(b)).</p>

<i>Conceptual Framework</i> discussions		Disclosure Initiative discussions
<b>Objective of financial statements</b>	<p>The IASB has tentatively decided to:</p> <ul style="list-style-type: none"> <li>(a) include an overall objective for financial statements in the <i>Conceptual Framework</i> Exposure Draft; but</li> <li>(b) <b>not include</b> a notion of ‘primary financial statements’ or separate objectives for the primary financial statements and notes.</li> </ul> <p>In making that decision the IASB noted that:</p> <ul style="list-style-type: none"> <li>(a) objectives for components of financial statements, if needed, would be more appropriate at the Standards level; and</li> <li>(b) it would be premature for the IASB to make a conclusion on whether the statement of cash flows is a ‘primary financial statement’.</li> </ul>	<p>At this month’s meeting, as part of the Principles of Disclosure research project, the IASB will consider the purpose (objective) of the primary financial statements and the notes (see Agenda Paper 11A(a)).</p> <p>Research is also being undertaken in the Principles of Disclosure research project into the relevance of the statement of cash flows.</p>

<i>Conceptual Framework</i> discussions		Disclosure Initiative discussions
<b>Scope of the notes</b>	<p>The IASB has tentatively decided:</p> <ul style="list-style-type: none"> <li>(a) to incorporate the Discussion Paper’s suggestions about the scope of the notes into the <i>Conceptual Framework</i> Exposure Draft; and</li> <li>(b) not to provide examples of different types of disclosures in the <i>Conceptual Framework</i> Exposure Draft (as this detail would be better placed in the Principles of Disclosure research project).</li> </ul> <p>The IASB also noted that further guidance on where to place information in the financial statements would be better placed at the Standards level and that this is being explored in the Principles of Disclosure research project.</p>	<p>At this month’s meeting, as part of the Principles of Disclosure research project, the IASB will consider the purpose (objective) of primary financial statements and notes, including types of disclosures and where in the financial statements information should be placed (see Agenda Paper 11A(a)).</p>
<b>Aggregation and disaggregation</b>	<p>The IASB noted in July 2014 that further guidance on classification and aggregation, if needed, should be provided at the Standards level.</p>	<p>Research is being undertaken in the Principles of Disclosure research project into aggregation and disaggregation.</p>

<i>Conceptual Framework</i> discussions		Disclosure Initiative discussions
<b>Non-IFRS/ non-GAAP information</b>	The IASB noted in July 2014 that the topic of non-IFRS/non-GAAP information will be explored in the Principles of Disclosure research project.	Research is being undertaken in the Principles of Disclosure research project into non-IFRS/non-GAAP information.