

## STAFF PAPER

September 2012

## IASB Meeting

Project	Conceptual Framework		
Paper topic	Restarting the project		
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**Purpose of this paper**

1. This paper provides an overview of how the staff recommend approaching the project on the conceptual framework.

**Summary of staff recommendations**

2. The staff recommend that:
  - (a) the conceptual framework project should focus on elements of financial statements, measurement, reporting entity, presentation and disclosure.
  - (b) the aim should be to work towards a single discussion paper covering all these areas, rather than separate discussion papers for each area.
3. The staff note that before the conceptual framework project was suspended it was a joint project between the IASB and the US Financial Accounting Standards Board (FASB). The IASB intends to conduct this project as an IASB project, not as a joint project. The staff expect to recommend in due course that the consultative group for this project should include several national standard setters, or regional organisations of standard setters, perhaps totalling around half the membership of the group.
4. The rest of this paper deals with the following subjects:

- (a) Previous work on the conceptual framework (paragraph 5)
- (b) Focus of the remaining work on the Conceptual Framework (paragraphs 6 to 8)
- (c) One package or separate phases? (paragraphs 9 to 13)
- (d) Interaction with standards-level projects (paragraphs 14 to 16)
- (e) Consultation with national standard setters and others (paragraphs 17 to 22)
- (f) Questions for the Board

## Previous Work on the Conceptual Framework

5. The IASB and the FASB added to their agendas a project on the conceptual framework in 2004. The project was divided into 8 phases as follows:

<i>Phase</i>	<i>Subject</i>	<i>Status</i>
A	Objective and qualitative characteristics of financial reporting	<p>Completed in 2010 by issuing Chapter 1 <i>Objective of Financial Reporting</i> and Chapter 3 <i>Qualitative Characteristics of Financial Reporting</i></p> <p>The IASB's conceptual framework now comprises:</p> <ul style="list-style-type: none"> <li>• These new chapters 1 and 3</li> <li>• Other material from the IASB's previous conceptual framework, rehoused without substantive amendment in a new chapter 4.</li> </ul> <p>Chapter 2 does not yet exist. It is intended to deal with the reporting entity (see phase D below).</p>
B	Elements of financial statements (definition, recognition and derecognition)	<p>The boards started considering some of the issues from this phase in December 2005. By the end of 2010, the boards had tentatively agreed on the definition of an asset and had held some initial discussions on how many elements there should be, and on the difference between liabilities and equity. In addition, the staff had done some preliminary work on the unit of account and recognition.</p> <p>The boards have not published a discussion</p>

		paper for this phase.
C	Measurement	<p>Initial work on this phase attempted to identify a single conceptual measurement ideal, for example some form of current value. This approach would also consider how to modify that measurement ideal if practical considerations prevent its adoption in particular projects. As part of this work, public round-table meetings were held in 2007.</p> <p>From November 2008, the boards' discussions switched to a different approach. This would identify the theoretical merits and practical limitations of different types of measurements. It would also describe factors to consider when making future standards-level decisions about measurement methods.</p> <p>The boards have not published a discussion paper for this phase.</p>
D	Reporting entity	<p>The boards published an Exposure Draft (ED) on the reporting entity in March 2010. The ED proposed definitions of :</p> <ul style="list-style-type: none"> <li>• a reporting entity</li> <li>• control of another entity (used to determine the scope of consolidation requirements).</li> </ul> <p>When the boards paused the project on the conceptual framework, the staff were doing further research on the following concepts:</p> <ul style="list-style-type: none"> <li>• combined financial statements covering entities under common control. (Unlike <i>consolidated</i> financial statements, <i>combined</i> financial statements would not cover the controlling entity.)</li> <li>• how an entity's ownership structure affects, the usefulness of reported financial information (chiefly equity and profit or loss).</li> </ul>
E	Boundaries of financial reporting, including presentation and disclosure	<p>This phase was to address the purpose of the different financial statements within general purpose financial reporting; the boundaries between general purpose financial statements and other types of financial reports; and the presentation and disclosure within those financial reports. No work was done on this phase.</p>

F	Purpose of the conceptual framework	No work was done on this phase.
G	Applicability to other entities eg not-for-profit and government business entities	No work was done on this phase.
H	A review of the entire framework	The final phase (phase H) was expected to lead to an Exposure Draft of the final proposed improvements for the entire converged framework, after completion of most or all of the earlier phases. No work was done on this phase

### Focus of the remaining work on the Conceptual Framework

6. In May 2012, the Board discussed the topics for inclusion in the consultation summary and feedback statement on its 2011 agenda consultation and the Board's strategy for developing its technical programme. The proposals discussed in May 2012 were presented to the IFRS Advisory Council in June 2012 for further discussion.
7. At the meeting in May 2012, the Board unanimously supported, among other things, giving priority to work on the Conceptual Framework project and that the main focus should be on elements, measurement, presentation, disclosure and reporting entity. Consistently with that conclusion, the staff recommend that work on the conceptual framework should focus on the following areas:

<i>Area</i>	<i>Comments</i>
Elements	Was phase B Relevant previous work in other unfinished projects includes work on financial instruments with the characteristics of equity, non-financial liabilities (IAS 37).
Measurement	Was phase C
Reporting entity	Was phase D
Presentation and disclosure	Was to be part of phase E

	<p>Will benefit from previous work by the IASB and FASB in their unfinished joint project on Financial Statement Presentation and from feedback received on that work.</p> <p>One presentation issue to be considered is the role of other comprehensive income.</p> <p>As discussed by the Board in May 2012, we intend to hold, late this year or early next year, a public forum to assess strategies for improving the quality of financial reporting disclosures, within the existing disclosure requirements.</p> <p>Work on presentation and disclosure:</p> <ul style="list-style-type: none"> <li>• is likely to include some assessment of which categories of information belong in the financial statements rather than in management commentary. However, this is not likely to include a detailed review of the IFRS Practice Statement <i>Management Commentary</i>.</li> <li>• may be helpful for a review of interim financial reporting. However, it is likely to be more efficient and effective to consider most aspects of interim financial reporting in a future review, if any, of IAS 34 <i>Interim Financial Reporting</i>, rather than in the project on the conceptual framework.</li> </ul>
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8. Furthermore, the staff recommend that the Board should not develop the following components of the previous project.

<i>Phase</i>	<i>Subject</i>	<i>Status</i>
E	Boundaries of financial reporting (excluding presentation and disclosure)	<p>The staff recommend above that the Board should work on presentation and disclosure. However, the staff believe that Board should not devote time and resources at this stage to other areas within the original scope of phase E, such as:</p> <ul style="list-style-type: none"> <li>• Preliminary announcements and press releases</li> </ul>
F	Purpose of the conceptual framework	<p>The main purpose of the conceptual framework is “to assist the Board in the development of future IFRSs and in its review of existing IFRSs”. The conceptual framework does not override any specific IFRSs. A secondary purpose is to assist preparers in preparing financial statements.</p> <p>The boards originally wished to reach a</p>

		common position on whether the framework should have that secondary purpose, which is not present in US GAAP. However, because the Board no longer intends to conduct the rest of the project jointly with the FASB, there is now no need for phase F.
G	Applicability to other entities eg not-for-profit and government business entities	At present, the Board focuses on business entities in the private sector.
H	A review of the entire framework	Not needed as a separate phase if the proposed sections are developed and issued together, as recommended below.

### One package or separate phases?

9. As noted above, the IASB and FASB decided to conduct their joint project on the conceptual framework in phases, as follows:
- (a) Each phase would result in a Discussion Paper, and then an exposure draft, for that phase.
  - (b) The final phase would deal with all remaining issues and lead to an exposure draft of the entire framework.
  - (c) The entire Conceptual Framework would become effective on a single date. Earlier phases would not be finalised before that point.
10. Subsequently, the IASB decided to publish the final version of each chapter as it was completed. The IASB acknowledged the possibility that consequential amendments would result from decisions to be made in later chapters. As a chapter is finalised, the relevant paragraphs in the *Framework* 1989 would be replaced. The reasons were:
- (a) IASB members could use the latest thinking in developing new standards.
  - (b) If no chapters are made effective until all chapters are published, the boards are likely to face difficulty in setting standards during the interim period between tentative completion of each chapter and the publication of the full framework. They would, in effect, have two frameworks to consider—the one that was effective and the one they expect to replace it.

If the two conflict with each other, could the boards justify setting a standard they knew would be subject to change (and in some cases, become inconsistent with the new framework) in a few years?

(c) Board turnover could result in reopening of issues already settled.

11. The IASB and FASB originally decided to conduct this project in phases. The arguments for a phased approach include:

(a) to produce some output more quickly.

(b) to educate interested parties about the boards' latest thinking at an early stage, and to receive early feedback from interested parties.

(c) to make it easier to focus on a narrow range of issues at any one time, rather than trying to answer every question at once.

(d) to minimise the risk of spending a long time developing a product that proves ultimately to be undermined by an detected flaw in an early decision.

12. Because many issues are inter-connected, many respondents have indicated that they find it difficult to comment effectively on one phase without knowing how that phase will interact with later phases. To overcome these concerns, which the staff shares to some extent, the staff suggest that we should develop a single discussion paper covering all the areas identified in paragraph 7, including any consequential amendments needed to the chapters already published (1 and 3). After considering responses to the discussion paper, we would then develop a single exposure draft. On balance, the staff believe the advantages of this approach outweigh the advantages of the phased approach.

13. The staff also believe that the best way for the Board to approach the discussion is top down, starting with a skeleton of the entire document, rather than bottom up starting with individual issues almost in isolation. We plan to develop such a skeleton for the first half of next year. We will develop a more detailed timetable as we begin work.

## Interaction with standards-level projects

14. May 2012, the Board discussed responses to the agenda consultation and decided to give priority to:
- (a) developing standards-level proposals for potential amendments to IAS 41 *Agriculture* (in relation to bearer crops); rate-regulated activities; and the equity method in separate financial statements; and
  - (b) re-commencing research on emissions trading schemes and business combinations under common control.
15. At that meeting, the Board also decided:
- (a) to initiate a research programme, focusing initially on discount rates; the equity method of accounting; extractive activities/intangible assets/R&D; financial instruments with the characteristics of equity; foreign currency translation; non-financial liabilities; and financial reporting in high-inflation and hyperinflationary economies.
  - (b) to establish a consultative group to assist the IASB with matters related to Shariah law.
16. In planning and conducting the work on the conceptual framework, the staff will consider interactions with the possible projects identified in paragraphs 14 and 15. Several of those possible projects are likely to provide input for the conceptual framework and to depend, at least to some extent on developments in that project. For example:
- (a) Issues relating to the definitions of assets and liabilities are likely to arise in many projects, including possible projects on rate-regulated activities, emissions trading schemes, financial instruments with characteristics of equity and non-financial liabilities.
  - (b) Measurement issues are likely to arise in possible work on agriculture, among other projects.
  - (c) Reporting entity issues may arise in projects on business combinations under common control, and the equity method of accounting.



- (d) Presentation issues may arise if the IASB wishes to consider using Other Comprehensive Income (OCI).
- (e) Disclosure issues will arise in all projects.

### **Consultation with national standard setters and others**

17. Until now, work on the Conceptual Framework has been a joint project with the FASB. At this stage of its development, the Board believes it is no longer appropriate to conduct this project as a joint project with one single national standard setter. Accordingly, the Board will conduct this project as an IASB project.
18. We discuss below how we plan to receive input and feedback from national standard setters, such as the FASB.
19. The IASB's due process handbook states that for major projects ("those projects involving pervasive or difficult conceptual or practical issues"), the IASB normally establishes working groups. Proposing to retain that requirement, the May 2012 exposure draft of the *IASB and IFRS Interpretations Committee Due Process Handbook* ("draft due process handbook") proposes that "the IASB normally establishes a consultative group for each of its major projects".
20. The staff believe that the IASB should establish a consultative group for the project in the Conceptual Framework.
21. The draft due process handbook proposes the following guidance on the membership of consultative groups:

The composition of a consultative group should reflect the purpose for which the group is being formed, bearing in mind the need to ensure that it draws on a geographically and professionally diverse and broad membership. The IASB would normally advertise for nominations and applications via its website, but it can also approach parties directly. The DPOC [Due Process Oversight Committee] reviews the proposed composition of each group to ensure that there is a satisfactory balance of perspectives. The IASB may also establish or host sector

representative groups whose membership reflects a particular sector, such as investors or preparers that meet regularly to provide advice on a wide range of topics rather than on a specific project. These groups include the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF) and the Emerging Economies Group (EEG). It is not necessary for the DPOC to approve membership of such groups. However, the purpose of the group and the names and affiliations of the group members must be made public.

22. The staff expect to recommend that the consultative group for this project should include several national standard setters, or regional organisations of standard setters, perhaps totalling around half the membership of the group. The staff will develop proposals in due course.

## Questions for the Board

### Questions 1 and 2

1. Do you agree that the conceptual framework project should focus on elements of financial statements, measurement, reporting entity, presentation and disclosure?
2. Do you agree that the aim should be to work towards a single discussion paper, rather than separate discussion papers for each area?