

# AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

TOKYO

23 MAY 2017

Agenda ref 1D(ii)

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## **Conceptual Framework: Due process summary for the *Conceptual Framework for Financial Reporting***

1. Attached is the text of the paper that was presented to the International Accounting Standards Board (‘the Board’) at its March 2017 meeting (Agenda Paper 10C), summarising the due process steps undertaken in developing amendments to IFRS Standards that update references to the *Framework for the Preparation and Presentation of Financial Statements* in existing Standards and requesting the Board’s permission to begin the balloting process for the amendments.
2. The IASB® Update for that meeting reports that: “All 12 Board members confirmed that they are satisfied that the Board has completed all the necessary due process steps on the project to date and instructed the staff to begin drafting and balloting. Two of 12 Board members stated an intention to dissent from the publication of *References to the Conceptual Framework*.”<sup>1</sup>

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<sup>1</sup> The March 2017 *IASB Update* can be accessed at: <https://s3.amazonaws.com/ifrswebcontent/2017/IASB/March/March-2017-IASB-Update.pdf>

# STAFF PAPER

**March 2017**
**IASB Meeting**

| Project     | Conceptual Framework  |  |                     |
|-------------|---|--|---------------------|
| Paper topic | Due process summary for <i>References to the Conceptual Framework</i> |  |                     |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose and structure of this paper**

1. This paper explains the due process steps undertaken in developing amendments to IFRS Standards that update references to the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) in existing Standards. Further, it asks the Board for permission to ballot and about any intentions to dissent.
2. The paper is structured as follows:
  - (a) background (paragraphs 3–7);
  - (b) analysis of compliance with due process steps (paragraphs 8–17);
    - (i) mandatory steps (paragraphs 10–14).
    - (ii) non-mandatory steps (paragraphs 15–16).
  - (c) re-exposure (paragraphs 18–20);
  - (d) permission to ballot (paragraph 21); and
  - (e) intention to dissent (paragraph 22).

**Background**

3. 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* (the *Conceptual Framework*). 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*.

4. 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*, and not to any previous version. To achieve this, the Board issued a separate Exposure Draft *Updating References to the Conceptual Framework* (the Updating References Exposure Draft) in May 2015<sup>2</sup>.
5. The Updating References Exposure Draft proposed replacing references to the *Framework* in IFRS Standards with references to the *Conceptual Framework*, and removing related footnotes. Further, it suggested updating some quotations from the *Framework* in the main text of existing Standards to make them consistent with the references to the revised *Conceptual Framework*.
6. The Board discussed the feedback received on the Updating References Exposure Draft in March 2016. Some respondents expressed concerns about unintended consequences of some proposals, including consequences of replacing the reference to the *Framework* in paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on preparers. In November 2016 the Board discussed the results of the work performed in response to those concerns (see paragraph 16).
7. The Board redeliberated the Updating References Exposure Draft proposals in January 2017. At that meeting the Board tentatively decided to retain:
  - (a) the reference to the *Framework* in paragraph 11 of IFRS 3 *Business Combinations* and start a project to make a narrow-scope amendment that would allow the replacement of the reference to the *Framework* in a way that would prevent unintended consequences.

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<sup>2</sup> While the Exposure Draft was named *Updating References to the Conceptual Framework*, the title of the final document will be changed to *References to the Conceptual Framework* to reflect more accurately its purpose.

- (b) the description of the assumed characteristics of users of financial statements but to delete the reference to the *Framework* in paragraph 7 of IAS 1, paragraph 6 of IAS 8 and paragraph IG16 of IFRS 4.

Further, the Board tentatively decided to confirm:

- (a) replacing the reference to the *Framework* with the reference to the *Conceptual Framework* in paragraph 11 of IAS 8.
- (b) replacing the remaining references to the *Framework* with references to the *Conceptual Framework* and updating 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*.
- (c) removing clarifying footnotes added after the revisions to the *Conceptual Framework* in 2010.

### **Analysis of compliance with due process steps**

- 8. The following section sets out the mandatory (minimum safeguards) and non-mandatory (comply or explain) steps undertaken in developing the amendments to update references to the *Framework*. Those due process steps are set out in paragraphs 3.43–3.44 of the *IASB and IFRS Interpretations Committee Due Process Handbook (Due Process Handbook)*, issued in February 2013 and amended in May 2016.
- 9. This section should be considered in conjunction with the appendix to this paper which contains a detailed assessment of the due process steps followed in the development of the amendments to update references to the *Framework*.

### **Mandatory steps**

#### **Debating any proposals in one or more public meetings**

- 10. At its October 2014 meeting, the Board discussed proposals for inclusion in the Updating References Exposure Draft. The Board discussed the feedback received on this Exposure Draft and the potential effects of the proposals on preparers at two public meetings in 2016 before it redeliberated the proposals at one meeting in 2017. Agenda Papers for these meetings were posted to, and are available on, the IFRS Foundation’s website. All tentative decisions were made in those public

meetings, and summaries of the tentative decisions reached are available on the IFRS Foundation’s website.

**Exposing for public comment a draft of any proposed new Standard—with minimum comment periods**

11. In May 2015, the Board issued the Updating References Exposure Draft with an accompanying Basis for Conclusions. The Updating References Exposure Draft was approved by all of the 14 Board members. The comment period for this Exposure Draft was initially set at 150 days. This was extended to 180 days in response to requests from stakeholders to extend the comment period on the Conceptual Framework Exposure Draft. Both the initial and the extended comment period exceed the usual minimum comment period for Exposure Drafts of 120 days.

**Considering in a timely manner those comment letters received on the proposals**

12. The Board received a total of 40 comment letters on the Updating References Exposure Draft. The comment letter summary was presented to the Board in March 2016, covering all comment letters received. The comment letters on the Updating References Exposure Draft are available on the IFRS Foundation’s website.

**Considering whether the proposals should be exposed again**

13. The staff recommend that the Board should not re-expose for public comment the proposed amendments (see paragraphs 18–20).

**Reporting to the IFRS Advisory Council on major projects**

14. The project to update references to the *Conceptual Framework* forms part of the Conceptual Framework project. The IFRS Advisory Council was updated on the progress of Conceptual Framework project as part of the reports on the technical work programme.

***Non-mandatory steps***

15. Given the limited scope of these amendments and input received from other sources it was considered unnecessary to:
  - (a) publish a discussion document;

- (b) establish a consultative group; or
  - (c) hold public hearings.
16. Some respondents to the Updating References Exposure Draft and some participants in the outreach performed during the comment period on that Exposure Draft expressed concerns about possible consequences of the proposal to replace references to the *Framework* in IAS 8. In response to those concerns, the staff undertook an analysis of the effects of replacing references to the *Framework* in IAS 8 on preparers. The outcome of this testing was presented to the Board in November 2016 (Agenda Paper 10G).

**Sufficient compliance with required due process steps**

17. In the appendix of this paper the staff have summarised the due process steps undertaken in developing the amendments to existing Standards to update references to the *Framework*. The staff think that the Board has undertaken and completed all of the activities identified as being ‘required’ in the *Due Process Handbook*. In addition, the staff think that the Board has undertaken sufficient ‘non-mandatory’ steps for it to be in a position to finalise the amendments to existing Standards to update references to the *Framework*.

**Question 1**

Does the Board agree with the staff conclusion that the Board has undertaken all required due process steps?

**Re-exposure**

18. The re-exposure criteria are set out in paragraphs 6.25 and 6.29 of the *Due Process Handbook*. In considering whether there is a need for re-exposure, the Board:
- (a) identifies substantial issues that emerged during the comment period on the Exposure Drafts that it had not previously considered;
  - (b) assesses the evidence that it has considered;
  - (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

- (d) considers whether the various viewpoints were appropriately aired in the Exposure Drafts and adequately discussed and reviewed in the Basis for Conclusions.
19. No new substantial issues have emerged during the comment period. However:
- (a) some respondents to the Updating References Exposure Draft suggested that the Board should not replace some of the references to the *Framework* in existing Standards because this might have unintended consequences. In response to these suggestions the Board tentatively decided:
- (i) to retain the reference to the *Framework* in IFRS 3; and
- (ii) to consider whether and how replacing the reference to the *Framework* in paragraph 11 of IAS 8 should apply to accounting policies for rate-regulated activities. This topic is discussed in Agenda Paper 10B *Applying the amendment to paragraph 11 of IAS 8 to rate-regulated activities* for this month's meeting. In that paper, the staff recommend that entities are prohibited from applying the amendment to paragraph 11 of IAS 8 to accounting policies for regulatory account balances.
- (b) in response to comments on the Exposure Draft and as discussed in paragraphs 16, the staff undertook an exercise to test the effects on preparers' accounting policies of the proposed amendments.
20. Having considered all the steps undertaken the staff think that it is unlikely that re-exposure will reveal any new concerns or new information. In addition, feedback received on the Updating References Exposure Draft will be adequately discussed and reviewed in the Basis for Conclusions on the amendments. On this basis, the staff recommend that the Board should not re-expose the amendments for another round of public comment.

**Question 3**

Does the Board agree with the staff recommendation not to re-expose the amendments?

**Permission to ballot**

21. Apart from sweep issues that might arise during the drafting stages of the balloting process, the Board has now completed redeliberations of all technical issues. If the Board agrees that all due process requirements have been met, the staff think that the Board is ready to proceed to balloting the amendments to update references to and quotations from the *Framework*.

**Question 4**

Does the Board grant the staff permission to begin the balloting process for the amendments to update references to and quotations from the *Framework*?

**Intention to dissent**

22. Decisions on all issues discussed by the Board were tentatively approved by the majority of the Board. However, in accordance with paragraph 6.23 of the *Due Process Handbook*, any members of the Board who intend to dissent from the amendments to update references to and quotations from the *Framework* are required to make that intention known at this time.

**Question 5**

Do any Board members plan to dissent from the publication of the amendments to update references to and quotations from the *Framework*?



**Appendix A: Due process steps followed in the development of the *References to the Conceptual Framework***

| <i>Step</i>   | <i>Required/<br/>Optional</i> | <i>Metrics or evidence</i>  | <i>Examples of evidence that<br/>could be provided to DPOC</i>  | <i>Actions</i>   |
|---|-------------------------------|---|---|--|
| <b>Consideration of information gathered during consultation</b>  |                               |   |   |  |
| <b>The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.</b>     | Required if request issued    | Letters posted on the project pages.  | The Board has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.  | The Board received 40 comment letters on the Updating References Exposure Draft. All letters have been posted on the IFRS Foundation’s website and a link to the comment letters is provided on the Conceptual Framework project page.<br><br>A comment letter summary, also available on the Conceptual Framework project page, was presented to the Board in March 2016.   |
| <b>Round-table meetings between external participants and members of the Board.</b>   | Optional                      | Extent of meetings held.  | The DPOC has received a report of outreach activities.  | No round-table meetings were held due to limited scope of proposed amendments.   |
| <b>Board meetings are held in public, with papers being available for observers. All decisions are made in public sessions.</b> | Required                      | Meetings held.<br><br>Project website contains a full description with up-to-date information.<br><br>Meeting papers posted in a timely fashion.<br><br>Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them. | The Board and the DPOC have discussed progress on major projects, in relation to the due process being conducted.<br><br>The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed.<br><br>The DPOC has met with the Advisory Council to understand stakeholders’ perspectives.<br><br>The DPOC has reviewed and responded to comments on due process as appropriate. | <b>Board meetings</b><br>The Board held public meetings in developing the: <ul style="list-style-type: none"> <li>• Updating References Exposure Draft, in October 2014; and</li> <li>• <i>References to the Conceptual Framework</i>, in March and November 2016, and January 2017.</li> </ul> <b>Project website</b><br>The Conceptual Framework project page of the IFRS Foundation’s website has been in place over the course of the Conceptual Framework project. It contains a description of the project objective and history, meeting papers, summaries of the tentative decisions made ( <i>IASB Update</i> ), and recordings of the meetings, as well as papers discussed with the Board’s advisory bodies. It contains the comment letters on the Updating References Exposure Draft and a summary of the feedback received.<br><b>Meeting papers</b><br>All meeting papers have been posted on the IFRS Foundation’s website prior to the meeting dates. |

| <b>Step</b>   | <b>Required/<br/>Optional</b> | <b>Metrics or evidence</b>  | <b>Examples of evidence that<br/>could be provided to DPOC</b>  | <b>Actions</b>   |
|---|-------------------------------|---|---|--|
| <b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.</b> | Required                      | Publication of the Effect Analysis.   | The IASB and the DPOC have reviewed the results of the Effect Analysis and how it has considered such findings in the proposed Standard.<br><br>The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication. | The amendments to update references to the revised <i>Conceptual Framework</i> are expected to have very limited direct effect for preparers. The Board has considered effects of the updated references in its redeliberations of the Updating References Exposure Draft.<br>A discussion of the work that the Board has undertaken to assess the possible effects of the amendments will be included in the Basis for Conclusions. |
| <b>Email alerts are issued to registered recipients.</b>  | Optional                      | Evidence that alerts have occurred.   | The DPOC has received a report of outreach activities.  | Interested parties were notified when updates to the Conceptual Framework project website were made using the project page and subscriber email alerts. As of January 2017 there were over 5,000 participants registered for <i>Conceptual Framework</i> email alerts.   |
| <b>Outreach meetings to promote debate and hear views on proposals that are published for public comment.</b>                     | Optional                      | Extent of meetings held, including efforts aimed at investors.                                | The DPOC has received a report of outreach activities.  | Given the limited scope of these amendments and sufficient input from other sources, outreach meetings were considered unnecessary.  |
| <b>Regional discussion forums are organised with national standard-setters and the IASB.</b>                                      | Optional                      | Extent of meetings held.  | The DPOC has received a report of outreach activities.  | No specific meetings were considered necessary for these amendments.   |
| <b>Finalisation</b>   |                               |   |   |  |
| <b>Due process steps are reviewed by the IASB.</b>  | Required                      | Summary of all due process steps have been discussed by the IASB before a Standard is issued. | The DPOC has received a summary report of the due process steps that were followed before the Standard is issued.   | This document presents the project's compliance with due process, and is to be reviewed during this meeting. This paper will be presented to the DPOC in May 2017.   |

| <b>Step</b>  | <b>Required/<br/>Optional</b> | <b>Metrics or evidence</b>   | <b>Examples of evidence that<br/>could be provided to DPOC</b>  | <b>Actions</b>  |
|--|-------------------------------|--|---|---|
| <b>Need for re-exposure of a Standard is considered.</b>   | Required                      | An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.  | The IASB has shared its thinking on the issue of re-exposure with the DPOC.   | Paragraphs 18–20 of this paper consider the need for re-exposure. The staff think that it is unlikely that a re-exposure would reveal any new concerns that have not already been considered by the Board. The staff recommend that the Board does not re-expose the amendments for public comment. |
| <b>The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b> | Required                      | Effective date set, with full consideration of the implementation challenges.  | The IASB has discussed any proposed shortening of the period for effective application with the DPOC.   | The Board tentatively decided on a transition period of approximately 18 months for preparers who use the <i>Conceptual Framework</i> to develop accounting policies.   |
| <b>Drafting</b>  |                               |  |   |   |
| <b>Drafting quality assurance steps are adequate.</b>  | Required                      | The Translations team has been included in the review process.   | The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.  | The Translations team will be consulted as part of the balloting process.   |
|  | Required                      | The IFRS Taxonomy team has been included in the review process.  | The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.  | The IFRS Taxonomy Team will be consulted as part of the balloting process to ensure that any implications of the amendments for the IFRS Taxonomy are identified.   |
|  | Optional                      | The Editorial team has been included in the review process.<br><br>In addition, external reviewers used to review drafts for editorial review and the comments collected have been considered by the IASB. | The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued, including the extent to which external reviewers have been used in the drafting process. | The staff will liaise with the editorial team and provide drafts for them to review when finalising the amendments.   |

| <b>Step</b>  | <b>Required/<br/>Optional</b> | <b>Metrics or evidence</b>  | <b>Examples of evidence that<br/>could be provided to DPOC</b>   | <b>Actions</b>   |
|--|-------------------------------|---|--|--|
|  | Optional                      | Draft for editorial review has been made available to members of the IFASS and the comments have been collected and considered by the IASB. | The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued. | The staff will make a draft of the amendments available on an internal site accessible by national standard-setters, and regional bodies, who are members of IFASS.                              |
|  | Optional                      | Draft for editorial review has been posted on the project website.  | The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued. | The staff does not intend to publish a draft of the amendments on the project website. This is because the staff expect the external review process to provide sufficient feedback on the draft. |
| <b>Publication</b>   |                               |   |  |  |
| <b>Press release to announce final Standard.</b>   | Required                      | Press release has been announced in a timely fashion.<br><br>Media coverage of the release.   | The DPOC has received a copy of the press release and a summary of the media coverage.                               | To be completed in due course.   |
| <b>A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.</b> | Required                      | Publication of the Feedback Statement.  | The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.       | To be completed in due course.   |
| <b>Podcast to provide interested parties with high level updates or other useful information about the Standard.</b>   | Optional                      | Number of podcasts held.  | The DPOC has received a report of outreach activities.   | To be completed in due course.   |
| <b>Standard/ Conceptual Framework is published.</b>  | Required                      | Official release.   | The DPOC has been informed of the release.   | To be completed in due course.   |

| <i>Step</i> | <i>Required/<br/>Optional</i> | <i>Metrics or evidence</i> | <i>Examples of evidence that<br/>could be provided to DPOC</i> | <i>Actions</i> |
|-------------|-------------------------------|----------------------------|--|----------------|
|             |                               |                            |  |                |