IFRS

STAFF PAPER

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IASB® Meeting

Project	**Conceptual Framework**
Paper topic	When and how preparers of financial statements refer to the *Conceptual Framework*

CONTACT Joan Brown jbrown@ifrs.org

Overview of session

1. The purpose of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) of the International Accounting Standards Board (Board) is to:
   (a) assist the Board to develop IFRS Standards based on consistent concepts;
   (b) assist preparers of financial statements to develop consistent accounting policies when no IFRS Standard applies to a particular transaction or other event, or when an IFRS Standard allows a choice of accounting policy; and
   (c) assist all parties to understand and interpret IFRS Standards.[1]

2. At its May 2018 meeting, the IFRS Interpretations Committee (Committee) considered an agenda request that raised questions about when and how preparers of financial statements should refer to the *Conceptual Framework* for assistance in developing accounting policies. The Committee decided to consult the Board on these questions.

[1] Paragraph SP1.1 in the Status and Purpose section of the *Conceptual Framework for Financial Reporting*, March 2018 (2018 *Conceptual Framework*).

3. The staff have sought to answer the questions within an analysis that:

   (a) brings together conclusions that the Board and Committee have reached in previous discussions; and

   (b) illustrates those conclusions using examples that the Board and Committee have previously discussed.

4. The purpose of this session is to obtain Board members' comments on the analysis.

Background

The agenda request and IFRS Interpretations Committee conclusions

5. The Committee was asked about the accounting for particular amounts of money that an entity deposits with a tax authority while still disputing its liability to pay those amounts. Depending on the outcome of the dispute (whether the entity is found to have a tax liability), the tax authority will either use the deposit to settle the entity's tax liability or refund the deposit to the entity. The Committee considered the request at its March 2018 and May 2018 meetings.[2] It has not yet published a tentative agenda decision.

6. The Committee considered whether the deposit gives rise to an asset, a contingent asset or neither. A contingent asset is a possible asset whose existence will be confirmed only by uncertain future events not wholly within the control of the entity.[3]

7. The tax is not an income tax so it is not within the scope of IAS 12 *Income Taxes*. The Committee observed that if the deposit gives rise to a contingent asset, that contingent asset would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, if the deposit gives rise to an asset, that asset would not clearly be captured within the scope of any IFRS Standard.

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[2] IFRS Interpretations Committee meeting, May 2018, Agenda Paper 2 *Payments relating to taxes other than income tax*.

[3] Paragraph 10 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

8. The Committee noted that, in the absence an IFRS Standard that specifically applies to a transaction, an entity applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Paragraph 10 of IAS 8 requires preparers of an entity's financial statements to use their judgement in developing and applying an accounting policy that results in relevant and reliable information. Paragraphs 11 and 12 of IAS 8 set out a hierarchy of authoritative guidance that the preparers consider in making that judgement:

   (a) paragraph 11 of IAS 8 requires preparers to refer to, and consider the applicability of, in descending order:

      (i) the requirements in IFRS Standards dealing with similar and related issues; and

      (ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*.

   (b) paragraph 12 of IAS 8 states that preparers may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these sources do not conflict with the sources in paragraph 11 of IAS 8.

9. In March 2018, the Board issued a revised *Conceptual Framework* (the 2018 *Conceptual Framework*). At the same time, it updated most of the references to earlier versions of the *Conceptual Framework* in IFRS Standards—including the reference in IAS 8—so that they now refer to the 2018 *Conceptual Framework*. Entities are required to apply the amended references for annual periods beginning on or after 1 January 2020. However, earlier application is permitted if an entity applies all the amendments at the same time.[4] Consequently, if an entity is applying a reference to the *Conceptual Framework* during the transition period, it could be applying a reference to either the 2018 *Conceptual Framework* or an earlier version.

[4] *Amendments to References to the Conceptual Framework in IFRS Standards*, March 2018.

10. In considering whether the deposit gives rise to an asset, the Committee applied the IAS 8 hierarchy and referred to the asset definition and supporting concepts in both the 2018 *Conceptual Framework* and the previous *Conceptual Framework* issued in 2010 (2010 *Conceptual Framework*). The staff paper for the Committee's May 2018 meeting explained the reason for referring to those asset definitions and concepts instead of the asset definition and requirements in IAS 38 *Intangible Assets*. The reason was that IAS 38 does not deal with issues similar or related to those arising for the tax deposit.

11. The Committee reached the same conclusions applying the asset definitions in both the 2010 *Conceptual Framework* and the 2018 *Conceptual Framework*. It concluded that, in the fact pattern described in the request, the tax deposit gives rise to an asset. It gives the entity a right that will produce economic benefits. The form of the economic benefits will depend on the outcome of the dispute—if the outcome is favourable to the entity, the economic benefits will be a cash refund; if the outcome is unfavourable, the economic benefits will be the use of the deposit to settle the entity's tax liability. The deposit does not give rise to a contingent (possible) asset because, although there is uncertainty about the form of the economic benefits, there is no uncertainty that the entity has a right to economic benefits in one form or another. Therefore, there is no uncertainty about whether an asset exists.

12. Example 4 in the Appendix to this paper discusses in more detail the Committee's conclusions and the basis for those conclusions.

Questions raised about the application of the Conceptual Framework definitions

13. A stakeholder raised two concerns about the staff analysis, in particular the staff's reasons for referring to the *Conceptual Framework*, instead of IAS 38, to determine whether the tax deposit meets the definition of an asset:

(a) in the stakeholder's view, the staff seemed to have concluded that IAS 38 does not deal with similar or related issues because the tax deposit asset is not the same as assets within the scope of IAS 38. The stakeholder observed that such reasoning, if taken to its logical conclusion, might stop preparers of financial statements from ever developing an accounting policy by analogy to the requirements of other IFRS Standards—the IAS 8 hierarchy only ever applies to transactions that are not the same as the transactions to which IFRS Standards specifically apply. In the stakeholder's view, there is a particular risk that, for transactions for which there is little or no specific guidance in the *Conceptual Framework*, preparers developing an accounting policy applying the IAS 8 hierarchy will feel free to consider the requirements of other standard-setting bodies, even if those requirements conflict with IFRS requirements for similar transactions.

(b) the stakeholder also questioned why the staff analysis made no reference to IAS 1 *Presentation of Financial Statements*. Paragraph 15 of IAS 1 states that:

> 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 *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

The stakeholder suggested that, in the absence of an IFRS Standard that specifically applies to a transaction, it may be paragraph 15 of IAS 1 and not paragraph 11 of IAS 8 that requires a preparer of financial statements to refer to the *Conceptual Framework.* In which case, for the example considered by the Committee, the question of whether other IFRS Standards deal with similar or related issues may be irrelevant.

Staff analysis

14. In our analysis of the tax deposits, the staff did not intend to imply that preparers of financial statements would never develop an accounting policy by reference to IFRS Standards dealing with similar or related issues. In observing that IAS 38 does not deal with issues similar or related to those arising in deciding whether the tax deposit is an asset, we noted that the assets within the scope of IAS 38 are non-monetary assets, and so are different from the monetary asset that would arise from a tax deposit. But we further noted that the issues that IAS 38 deals with—primarily issues relating to separability from goodwill and uncertainty about the probability or amount of potential future economic benefits—are not similar to the issues that arise for a tax deposit. The issue for a tax deposit relates to the possibility that the deposit might not be refunded but might instead be used settle a tax liability. We noted that, unlike IAS 38, the 2018 *Conceptual Framework* specifically deals with this issue—it cites examples of different ways in which an asset could produce economic benefits for an entity. One of those ways is by enabling the entity to extinguish liabilities.[5]

15. The staff agree with the stakeholder that an analysis of when and how preparers of financial statements refer to the *Conceptual Framework* should consider the requirements in paragraph 15 of IAS 1. However, we do not think that these requirements would be applied instead of the IAS 8 hierarchy. Paragraph 15 of IAS 1 needs to be read in the context of paragraph 17 of that Standard, which provides further guidance on how to achieve the 'fair presentation' required by paragraph 15. Paragraph 17 states that:

    (a) in virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRS Standards;

    (b) a fair presentation also requires an entity to select and apply accounting policies in accordance with IAS 8; and

[5] Paragraph 4.16(e) of the 2018 *Conceptual Framework*.

(c) IAS 8 sets out a hierarchy of authoritative guidance that the preparers of an entity's financial statements consider in the absence of an IFRS Standard that specifically applies to an item.[6]

16. In other words, the requirements of paragraph 15 of IAS 1 are implemented by applying the requirements of IAS 8. They do not override the requirements of IAS8.

17. The Committee has asked the Board for further clarification of when and how preparers of financial statements should refer to the *Conceptual Framework* for assistance in developing accounting policies. The staff have prepared an analysis for consideration by the Board. It is set out in the appendix to this paper. The analysis:

(a) brings together conclusions that the Board and Committee have reached in previous discussions;

(b) illustrates those conclusions using examples that the Board and Committee have previously discussed, including an example of a transaction for which preparers of financial statements might develop an accounting policy by reference to IFRS Standards dealing with similar and related issues.

(c) includes an analysis of the interaction between IAS 1 and IAS 8.

Question for the Board

Question for the Board
Do you have any comments on the staff analysis in the appendix to this paper?

[6] Paragraph 17(a) of IAS 1 *Presentation of Financial Statements*.

APPENDIX

Staff analysis—when and how preparers of financial statements refer to the *Conceptual Framework*

About the *Conceptual Framework*

The *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) of the International Accounting Standards Board (Board) describes the objective of, and the concepts for, general purpose financial reporting. Some IFRS Standards contain references to the *Conceptual Framework*.

In March 2018, the Board issued a revised *Conceptual Framework* (the 2018 *Conceptual Framework*). At the same time, it updated most of the references to earlier versions of the *Conceptual Framework* in IFRS Standards, so that they now refer to the 2018 *Conceptual Framework*.

Entities are required to apply the amended references for annual periods beginning on or after 1 January 2020. However, earlier application is permitted if an entity applies all the amendments at the same time.[7] Consequently, if an entity is applying a reference to the *Conceptual Framework* during this transition period, it could be applying a reference to either the 2018 *Conceptual Framework* or an earlier version.

The illustrative examples in this appendix assume that the entities described are applying references to the 2018 *Conceptual Framework*.

A1. This appendix explains when and how preparers of financial statements refer to the *Conceptual Framework* for assistance in developing accounting policies.

[7] *Amendments to References to the Conceptual Framework in IFRS Standards*, March 2018.

If an IFRS Standard specifically applies to a transaction, an entity applies that Standard

A2. If an IFRS Standard specifically applies to a transaction, other event or condition, an entity applies the requirements of that Standard, even if those requirements conflict with concepts in the *Conceptual Framework*.

A3. An entity applies the requirements of the Standard because:

(a) IAS 1 *Presentation of Financial Statements* requires financial statements to present fairly the financial position, financial performance and cash flows of an entity. It makes a general statement that 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 *Conceptual Framework*. It goes on to provide more specific requirements. It states that:

(i) the application of IFRS Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation;

(ii) in virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRS Standards; and

(iii) a fair presentation also requires an entity to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.[8]

(b) IAS 8 states that when an IFRS Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item are determined by applying that Standard.[9]

[8] Paragraphs 15 and 17 of IAS 1.

[9] Paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(c) the first section of the *Conceptual Framework* explains its status and purpose. It confirms that the *Conceptual Framework* is not a Standard and that nothing in the *Conceptual Framework* overrides any Standard or any requirement in a Standard.[10]

Example 1—Levy triggered when entity generates revenue in two years

A government charges a levy on entities as soon as they generate revenue in 20X1. The amount each entity pays is calculated by reference to the revenue the entity generated in 20X0. The levy is within the scope of IFRIC 21 *Levies*.

An entity's reporting period ends on 31 December 20X0. The entity generated revenue in 20X0, and in 20X1 it starts to generate revenue on 3 January 20X1.

IFRIC 21

IFRIC 21 states that the event that gives rise to a liability to pay the levy is the event that triggers the payment of the levy, which in this example is the generation of revenue in 20X1. The generation of revenue in 20X0 is necessary. However, it is not sufficient, even if the entity will be economically compelled to generate revenue in 20X1. Applying IFRIC 21, the entity does not recognise a liability in the reporting period ending on 31 December 20X0. It first recognises a liability on 3 January 20X1.[11]

Conceptual Framework

If the entity were to apply the concepts in the 2018 *Conceptual Framework*, it might recognise a liability earlier. Applying the concepts, the liability to pay the levy would be viewed as arising when the entity:

(a) has obtained economic benefits or taken an action;

(b) as a consequence, will or may have to pay a levy that it would not otherwise have had to pay; and

(c) has no practical ability to avoid paying the levy.[12]

[10] Paragraph SP1.2 in the Status and Purpose section of the 2018 *Conceptual Framework*.

[11] Paragraphs 8–9 of IFRIC 21 *Levies* and Example 2 in the Illustrative Examples on IFRIC 21.

[12] Paragraphs 4.29 and 4.43 of 2018 *Conceptual Framework*.

Conditions (a) and (b) are satisfied progressively in 20X0 as the entity generates revenue in that year. If at that time the entity has no practical ability to avoid generating revenue in 20X1, condition (c) is also satisfied. The liability would be viewed as accumulating as the entity generates revenue in 20X0.[13]

IFRS requirements

Because IFRIC 21 specifically applies to this levy and addresses the timing of liability recognition, the entity applies the requirements of IFRIC 21—not the concepts in the *Conceptual Framework*—to determine when to recognise a liability.

Example 2—Classification of financial instrument with no contractual obligation to deliver cash or another financial asset

An entity issues a financial instrument. The terms of the instrument give the entity no obligation to pay dividends or interest to holders of the instrument, and no obligation to redeem the instrument. However, the instrument includes a 'dividend blocker'—a term specifying that the entity cannot pay dividends to its ordinary shareholders unless it has paid dividends of a specified amount to holders of the instrument. The effect of the dividend blocker is that the entity may be economically compelled to pay dividends of the specified amount to instrument holders, despite having no contractual obligation to do so.

The instrument is within the scope of IAS 32 *Financial Instruments—Presentation*.

IAS 32

IAS 32 specifies how issuers of financial instruments classify the instruments. For an issuer to classify an instrument as an equity instrument rather than a liability, among other things the instrument must include no contractual obligation to deliver cash or another financial asset to another entity.[14]

In 2006, the Board considered whether economic compulsion affects the classification of a financial instrument. It confirmed that a contractual

13 IASB meeting, October 2016, Agenda Paper 10C *Conceptual Framework—Testing the proposed asset and liability definitions—illustrative examples*, Example 2.5(a).

14 Paragraph 16(a)(i) of IAS 32 *Financial Instruments—Presentation*.

obligation to deliver cash or another financial asset to the holder of an instrument must be established through the terms and conditions of the instrument—IAS 32 does not require or permit factors not within the contractual arrangement to be taken into consideration. Thus, by itself, economic compulsion would not result in a financial instrument being classified as a liability applying IAS 32.[15]

So, applying IAS 32, the entity classifies the instrument considering only its contractual obligations. Any economic compulsion to pay dividends to ordinary shareholders does not affect the classification.

Conceptual Framework

The 2018 *Conceptual Framework* defines a liability as a present obligation of an entity to transfer an economic resource as a result of past events. It defines an obligation as a duty or responsibility that an entity has no practical ability to avoid. It notes that in some cases, an entity may have no practical ability to avoid a transfer if any action that it could take to avoid the transfer would have economic consequences significantly more adverse than the transfer itself.[16]

IFRS requirements

Because IAS 32 specifically applies to this financial instrument and addresses its classification, the entity applies the requirements of IAS 32—not concepts in the *Conceptual Framework*—to classify the instrument.

[15] IFRIC *Update*, November 2006, *Classification of a financial instrument as liability or equity*.

[16] Paragraphs 4.26, 4.29 and 4.34 of the 2018 *Conceptual Framework*.

For most transactions there is an IFRS Standard that specifically applies

A4. For most transactions, other events or conditions there is an IFRS Standard that specifically applies.

A5. This is especially the case for transactions, other events or conditions that give rise to liabilities, because the scope of one IFRS Standard—IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—is defined broadly. The scope of IAS 37 includes all liabilities of uncertain timing or amount that are not within the scope of another IFRS Standard, and all contingent liabilities that are not within the scope of another IFRS Standard. Such liabilities and contingent liabilities could include, for example:

(a) obligations or possible obligations to pay taxes or levies that are not within the scope of IAS 12 *Income Taxes* (because their amount is based on a measure other than taxable profits) and are not within the scope of the financial instruments standards (because they arise from government legislation, not from contracts).

(b) non-contractual obligations (or possible obligations) to pay cash that arise from events other than transactions, such as obligations (or possible obligations) to compensate other parties for acts of wrong-doing.

(c) performance obligations that are outside the scope of IFRS 15 *Revenue from Contracts with Customers* because they are statutory obligations to society at large (for example, asset decommissioning obligations), not contractual obligations to customers.

(d) liabilities for onerous contracts, other than some types of contract for which another IFRS Standard (for example, IFRS 17 *Insurance Contracts*) contains specific requirements. Onerous contracts within the scope of IAS 37 can include both sales contracts and purchase contracts.

(e) additional obligations (or possible obligations) arising from an entity’s past practices, published policies or statements, if those obligations are not within the scope of another IFRS Standard.

A6. Furthermore, IAS 37 covers many aspects of accounting for items within its scope—it specifies which transactions and events give rise to a liability, the criteria that must be met for recognition of the liability, how an entity measures recognised liabilities initially and subsequently, and what information an entity discloses about both recognised liabilities and unrecognised contingent liabilities. It also addresses many of the issues that can arise in accounting for liabilities of uncertain timing or amount—uncertainty about whether an obligation exists (especially if there is a dispute or the obligation is not legally enforceable), uncertainty about when an obligation arises (especially if the outcome depends on the entity's future actions), uncertainty about the outflows that will be required to settle the obligation, and how to deal with the time value of money.

If no IFRS Standard specifically applies, preparers refer first to requirements in IFRS Standards dealing with similar and related issues

A7. If no IFRS Standard specifically applies to a transaction, event or other condition, preparers of financial statements refer first to requirements in IFRS Standards dealing with similar and related issues, if there are any such Standards.

A8. IAS 1 states that a fair presentation of an entity's financial position, financial performance and cash flows requires an entity to select and apply accounting policies in accordance with IAS 8. It notes that IAS 8 sets out a hierarchy of authoritative guidance that preparers of financial statements consider in the absence of an IFRS Standard that specifically applies to an item.[17]

A9. IAS 8 specifies that, in the absence of an IFRS Standard that specifically applies to a transaction, event or other condition, preparers use judgement in developing and applying an accounting policy that results in relevant and reliable information. IAS 8

[17] Paragraph 17(a) of IAS 1.

goes on to specify that in making that judgement, preparers refer to, and consider the applicability of, in descending order:

(a) the requirements in IFRS Standards dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*.[18]

A10. The phrase 'in descending order' creates the hierarchy. At the top of the hierarchy are IFRS Standards dealing with similar and related issues. The hierarchy means that, to the extent that there are applicable requirements in one or more IFRS Standards dealing with similar and related issues, preparers of financial statements develop an accounting policy by referring to those requirements, rather than to the definitions, recognition criteria and measurement concepts in the *Conceptual Framework*. Preparers may need to apply judgement in deciding whether there are IFRS Standards that deal with issues similar or related to those arising for the transaction under consideration.

A11. The IFRS Interpretations Committee has stated that, in developing an accounting policy through analogy to requirements in an IFRS Standard dealing with similar and related issues, preparers of financial statements need to use their judgement in applying all aspects of the Standard that are applicable to the particular issue.[19] (Those aspects could include disclosure requirements—see paragraph A17.)

A12. The implications of the Committee's statement are that:

(a) it might be inappropriate to apply by analogy only some requirements in an IFRS Standard if other requirements in that Standard also relate to the transaction for which a policy is being developed; but

(b) it might not be necessary to apply all the requirements of the Standard.

[18] Paragraphs 10–11 of IAS 8.

[19] IFRIC *Update*, March 2011, *Application of the IAS 8 hierarchy*.

Example 3—Back-to-back commodity loans

The IFRS Interpretations Committee discussed this transaction in November 2016.[20] *It published its conclusions in March 2017*[21].

A bank borrows gold from one party (Contract 1) and then lends that gold to another party for the same term and for a higher fee (Contract 2). The bank enters into the two contracts in contemplation of each other but the contracts are not linked. In each contract, the borrower obtains legal title to the gold at inception and has an obligation to return, at the end of the contract, gold of the same quality and quantity as that received. Each borrower pays a fee to its lender over the term of the contract but there are no cash flows at the inception of the contract.

No IFRS Standard that specifically applies

The preparers of the bank's financial statements might conclude that no IFRS Standard specifically applies to these contracts. They might judge that:

(a) the contracts are not leases within the scope of IFRS 16 *Leases*. They are not dependent on the use of an identified asset—each borrower may return gold different from that borrowed;

(b) the contracts are not within the scope of IFRS 9 *Financial Instruments*. Gold is a commodity not a financial asset.[22] IFRS 9 applies to some contracts to buy or sell a non-financial item[23] but the contracts in this example are contracts to lend gold, not to buy or sell it.

(c) the gold borrowed by the bank is not within the scope of IAS 2 *Inventories*. It is not (i) an asset held for sale; (ii) an asset in process of production for sale or (iii) material or supplies to be consumed.[24]

(d) the bank's obligation to return gold to its lender is not a liability within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. It is not 'a liability of uncertain timing or amount' because the

20 IFRS Interpretations Committee Meeting, November 2016, Agenda Paper 10 *Commodity Loans*.

21 IFRIC *Update*, March 2017, Committee's agenda decisions, *Commodity Loans*.

22 Guidance on implementing IFRS 9 *Financial Instruments*, Section B Definitions, B1 *Definition of a financial instrument: gold bullion*.

23 Paragraph 2.4 of IFRS 9.

24 Paragraph 6 of IAS 2 *Inventories*.

contract between the bank and its lender leaves no uncertainty about the timing of the return or the quantity of gold to be returned.[25]

Requirements in IFRS Standards dealing with similar and related issues

Several IFRS Standards might be viewed as dealing with similar and related issues. For example:

(a) IFRS 9 specifies requirements for financial assets that are borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor. It includes requirements for both transferors[26] and transferees[27].

(b) IFRS 16 specifies requirements for entities (intermediate lessors) that lease the right to use an underlying asset for a period of time from another party (the head lessor) and sublease the right to use that asset to a third party for all or part of that time.[28]

(c) IAS 2 specifies requirements for inventories purchased by an entity and IFRS 15 specifies requirements for contracts to sell an asset and repurchase either that asset or one that is substantially the same as that asset.[29]

Conceptual Framework

The definitions of an asset and a liability in the 2018 *Conceptual Framework* focus on identifying an entity's rights and obligations. So, if the bank were to apply those definitions, it might:

(a) recognise as an asset its right under Contract 2 to receive back the quantity and quality of gold it had lent to its borrower; and

(b) recognise as a liability its obligation under Contract 1 to return to its lender the same quantity and quality of gold.

[25] Paragraph 10 of IAS 37.

[26] Paragraphs 3.2.6(b) and B3.2.16(b) of IFRS 9.

[27] Paragraph 3.2.15 of IFRS 9.

[28] IFRS 16 *Leases*, specifically requirements in paragraphs 22–60 (lessee accounting), paragraphs 61–97 (lessor accounting) and paragraph B58 (specific requirement for classification of a sublease by intermediate lessor).

[29] Paragraphs B64–B69 of IFRS 15 *Revenue from Contracts with Customers*.

IFRS requirements

The preparers of the bank's financial statements might conclude that:

(a) no IFRS Standard specifically applies to these contracts, but

(b) there are IFRS Standards dealing with similar and related issues.

If the preparers reach this conclusion, they develop an accounting policy for the contracts by referring first to applicable requirements in one (or more) of the IFRS Standards dealing with similar and related issues. The preparers use their judgement in applying all aspects of the Standard(s) that are applicable to those issues, including applicable disclosure requirements.

The policy developed might not be the same as one that the preparers would have developed if they had instead referred to the *Conceptual Framework* definitions.

Preparers refer to the *Conceptual Framework* if no IFRS Standard specifically applies and there are no IFRS Standards dealing with similar or related issues

A13. Preparers of financial statements refer to the definitions, recognition criteria or measurement concepts in the *Conceptual Framework* if both:

(a) no IFRS Standard specifically applies to a transaction, event or other condition; and

(b) no IFRS Standards deal with similar or related issues.

A14. For some transactions, events or conditions, there could be several issues to consider in developing an accounting policy. For some of those issues there might be an IFRS Standard dealing with similar or related issues, whereas for others there might be no such Standard. In such situations, preparers of financial statements might refer to requirements in an IFRS Standard for some issues and to concepts in the *Conceptual Framework* for other issues.

Example 4—Tax deposit

The IFRS Interpretations Committee discussed in March 2018 and May 2018 an agenda request relating to an example like this one.[30] *It has not yet published a tentative agenda decision.*

An entity and a tax authority dispute whether the entity is required to pay a particular tax. The tax is not an income tax so it is not within the scope of IAS 12 *Income Taxes*. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Taking account of all available evidence, the preparers of the entity's financial statements judge it probable that the entity will not be required to pay the tax—it is more likely than not that the dispute will be resolved in the entity's favour. So applying IAS 37, the entity discloses a contingent liability and does not recognise a liability.

To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will either refund the deposit to the entity (if the dispute is resolved in the entity's favour) or use the deposit to settle the entity's liability (if the dispute is resolved in the tax authority's favour).

Decisions required in developing an accounting policy

In developing an accounting policy for the tax deposit, preparers of the entity's financial statements need to decide:

(a) whether the deposit gives rise to a contingent asset, an asset or neither; and

(b) if the deposit gives rise to an asset, whether the entity recognises that asset and, if so, how it measures and presents the asset and what information it discloses about the asset.

[30] IFRS Interpretations Committee meeting May 2018, Agenda Paper 2 *Payments relating to taxes other than income tax*.

Whether the deposit gives rise to an asset, a contingent asset or neither

IAS 37 defines a contingent asset as a possible asset whose existence will be confirmed only by uncertain future events not wholly within the control of the entity. If the tax deposit gives rise to a contingent asset, the requirements of IAS 37 apply to that contingent asset: the tax deposit is recognised as an expense unless an inflow of economic benefits—in this case, a refund of the deposit—is virtually certain.[31]

If the tax deposit instead gives rise to an asset, it may be that no IFRS Standard specifically applies to the asset. For example:

(a) it is likely that the asset would be a monetary asset. If so, it would not be within the scope of IAS 38 *Intangible Assets*, which defines an intangible asset as a non-monetary asset.[32]

(b) unless the asset has arisen from a contract, it would not be within the scope of IFRS 9 *Financial Instruments*.

In the absence of an IFRS Standard that specifically applies, preparers of the entity's financial statements consider first whether any IFRS Standards deal with issues similar or related to those that arise for the tax deposit.

The preparers might conclude that there are no such Standards. IAS 38 *Intangible Assets* includes a definition of an asset and requirements to apply in assessing whether particular types of expenditure give rise to assets. However, the assets within the scope of IAS 38 are non-monetary assets and the issues that IAS 38 addresses primarily concern separability from goodwill and uncertainty about the probability or amount of potential future economic benefits. The issues to consider for the tax deposit are different—the economic benefits are a determinable amount and the uncertainty relates to whether the entity will receive a refund.

If the preparers conclude that no IFRS Standard deals with similar or related issues, they refer to and consider the applicability of the asset definition and supporting concepts in the *Conceptual Framework*. Of particular note are that:

(a) the asset definition in the 2018 *Conceptual Framework* requires an entity to have a right that has the potential to produce economic benefits, and

31 Paragraphs 10 and 31–35 of IAS 37.

32 Paragraph 8 of IAS 38 *Intangible Assets*.

(b) the 2018 *Conceptual Framework* identifies various ways in which a right could produce economic benefits for an entity. One of those ways is by enabling the entity to extinguish liabilities.[33]

Applying those concepts leads to a conclusion that the entity has a right that will produce economic benefits irrespective of the outcome of the dispute with the tax authority—if the outcome is favourable to the entity, the economic benefits will be the cash refund; if the outcome is unfavourable, the economic benefits will be the use of the deposit to settle the entity's tax liability. Although there is uncertainty about the form of the economic benefits, there is no uncertainty about the entity's right to obtain benefits in one form or the other. Consequently, applying the 2018 *Conceptual Framework* asset definition and supporting concepts leads to a conclusion that the tax deposit gives rise to an asset. It is an asset, not contingent (possible) asset because there is no uncertainty about whether the asset exists.

Recognising, measuring, presenting and disclosing the tax deposit asset

If the preparers of the entity's financial statements conclude that the tax deposit gives rise to an asset, they need to decide whether the entity recognises that asset and, if so, how it measures and presents the asset and what information it discloses about the asset.

If there is no IFRS Standard that specifically applies to the asset, the preparers apply the IAS 8 hierarchy. They identify the issues that arise in making decisions about recognition, measurement, presentation and disclosure of the tax deposit asset and refer first to any IFRS Standards dealing with similar and related issues. The preparers could, for example, refer to and consider the applicability of requirements for financial assets in IFRS 9 and requirements for income tax assets in IAS 12.

To the extent that there are IFRS Standards dealing with similar and related issues, the preparers develop accounting policies for recognising, measuring, presenting and disclosing the deposit asset by reference to applicable requirements in one (or more) of those Standards. The preparers use their judgement in applying all aspects of the Standard(s) that are applicable to those issues. To the extent that no IFRS Standards deal with similar or related issues, the preparers refer to the *Conceptual Framework*.

[33] Paragraphs 4.14 and 4.16(e) of the 2018 *Conceptual Framework*.

Even if no IFRS Standard specifically applies, general disclosure requirements apply

A15. Disclosure requirements are in IFRS Standards. So if no IFRS Standard specifically applies to a transaction, there may be no disclosure requirements specifically for that transaction. However, disclosure of information about the transaction may be necessary to satisfy general presentation and disclosure requirements in IAS 1.

A16. Presentation and disclosure requirements in IAS 1 include requirements to:

(a) present in the statement of financial position and statement(s) of financial performance line items additional to those specifically listed in IAS 1 when such presentation is relevant to an understanding of the entity's financial position or performance; and

(b) disclose:

(i) the nature and amount of material items of income or expense;

(ii) information that is relevant to an understanding of any of the financial statements;

(iii) significant accounting policies; and

(iv) information about assumptions made about the future, and other major sources of estimation uncertainty.[34]

A17. In addition, if preparers of financial statements are developing an accounting policy by reference to requirements in an IFRS Standard dealing with similar and related issues, they consider all the requirements dealing with those issues, including disclosure requirements.[35]

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34 Paragraphs 55, 85, 97, 112(c), 117 and 125 of IAS 1.

35 IFRIC *Update*, March 2017, Committee's agenda decisions, *Commodity Loans*.