

**Conceptual Framework – Objective and Qualitative Characteristics:
 Third Pre-Ballot Draft**

Sweep Issues Session: issues raised with second pre-ballot draft

Issue no.; Location	Board member comment	Staff’s proposed response
1. Title	<p>One member said it is inappropriate to describe the Framework as the AASB’s Conceptual Framework. They said doing so “is VERY confusing re this effectively being the IASB’s Framework. All the way through it truly reads as the AASB has developed this. The only time the IASB is mentioned is the VERY first paragraph and in the Basis. I really am not convinced it works!”</p> <p>The member said the revised Framework should be named the ‘Australian equivalent to the IASB Conceptual Framework’.</p>	<p>Staff thinks the proposed title should be retained. Doing so would be consistent with:</p> <ul style="list-style-type: none"> • the name of the existing AASB <i>Framework</i>; and • the AASB’s approach of “incorporating” IFRSs in Australian Accounting Standards rather than issuing Australian “equivalents” to IFRSs. <p>However, staff suggests giving greater emphasis to the Framework being authored by the IASB, by saying in the first sentence of the ‘Comparison with IASB Framework’ that this Framework incorporates the Conceptual Framework chapters issued by the IASB <u>without amendment for application in respect of for-profit entities</u> (main addition underlined).</p>
2. Foreword: ‘Approach to revising the AASB Conceptual Framework’	<p>In relation to the statement in the second paragraph that “The revised AASB Conceptual Framework supersedes the AASB Framework for the Preparation and Presentation of Financial Statements”, one member said “This excludes SAC 1 and SAC 2, so this statement implies that the revised AASB Conceptual Framework does NOT supersede SAC 1 and SAC 2.”</p>	<p>Staff consider that there is only one existing AASB Framework (the July 2004 Framework), which includes SAC 1 and SAC 2 by reference (in paragraphs 8 and Aus14.1, respectively). Nevertheless, staff think this issue should be clarified further by adding a new paragraph Aus1.4 to say SACs 1 and 2 are consequently superseded when the July 2004 Framework is superseded.</p>

<p>3. Foreword: ‘This version of the AASB Conceptual Framework’</p>	<p>The first paragraph in this part of the Foreword says the SAC 1 concept of a reporting entity remains in use until the next phase of the Differential Reporting project is completed. Four members said the explanation of the revised status of SAC 1 is confusing and/or inappropriate. In particular, they said it is confusing to say the definition (concept) of a reporting entity in SAC 1 is retained at a standards level to support the application of AASB 1053 but that SAC 1 is excluded from the revised AASB Conceptual Framework from the time that revised Framework is first applied. Their specific comments are set out in Appendix A and discussed in Agenda Paper 11.3.</p> <p>Related to this concern, one of those members asked, in respect of the draft AASB Basis for Conclusions (in the last paragraph of the section headed ‘Reporting Entity Concept’, which says that until completion of the next phase of the AASB’s Differential Reporting project, “the guidance on the reporting entity concept in SAC 1 will remain important for the purpose of applying AASB 1053”), “Where is SAC 1 retained?”</p>	<p>The second pre-ballot draft positioned the SAC 1 concept of a reporting entity as being retained only for standards-level application (under AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>). The purpose of saying the SAC 1 concept of a reporting entity is superseded at a concepts level is that the revised IASB <i>Framework</i> includes numerous references to a ‘reporting entity’ with that term having a different meaning to ‘reporting entity’ in SAC 1. Some Board members requested highlighting that difference in the meaning of ‘reporting entity’ in the two documents.</p> <p>Board member feedback on the second pre-ballot draft indicates its explanation of the status of SAC 1 is unclear. Options for dealing with SAC 1 are discussed in Agenda Paper 11.3.</p>
<p>4. Para. 2</p>	<p>At its last meeting, the Board decided to replace the second sentence of the IASB wording in paragraph 2 with a rendition of the role of the Framework under AASB 108. Two members disagreed with the amendment as worded in the second pre-ballot draft.</p> <p>One member said: “I am strongly against changing the wording in paragraph 2 of scope to refer to AASB 108. I don’t believe it causes</p>	<p>In relation to the first member’s comments, staff note that draft paragraph 2 does not say the Framework is “mandatory”. Instead, it largely repeats the wording in paragraph 11 of AASB 108.</p> <p>The AASB’s reason for making this change to paragraph 2 is that the corresponding wording of the IASB Introduction is unchanged since 1989, and therefore omits to acknowledge the fundamental step the IASB took when it established a hierarchy of</p>

	<p>a problem. I suggest we leave well enough alone. I would not like a presumption that the conceptual framework is mandatory; it is certainly not taken as that at the moment. [The IASB’s wording in paragraph 2] is still applicable in IFRS and should not be changed here. The basic statement removed is accurate. It does not define standards; being ONE of the reference points does not make it ‘define standards’.”</p> <p>The other member said: “Paragraph 2 is very difficult to read and does not accurately reflect AASB 108, paragraph 11, which first refers to requirements in Accounting Standards dealing with ‘similar and related issues’, before making reference to the Framework. Also, why is paragraph 2 being changed with Aus words yet these are not identified as an ... Aus paragraph?”</p>	<p>authoritative sources in its 2005 version of IAS 8.</p> <p>For this reason, staff recommends retaining the reference to AASB 108.</p> <p>In relation to the other member’s comments, staff note that paragraph 2 says “(among other sources)” when it refers to the Framework. To avoid any confusion about this issue, staff recommends amending paragraph 2 to repeat the wording in paragraph 11 of AASB 108 (that is, to refer first to the requirements in Australian Accounting Standards dealing with similar and related issues).</p> <p>Staff recommend against presenting amendments to the Introduction as an ‘Aus’ paragraph, and confining ‘Aus’ references to the operational components of the Framework.</p>
<p>5. Introduction: Omitted IASB text preceding the ‘Purpose and status’ section</p>	<p>In their comments on the two pre-ballot drafts, two members disagreed with omitting the IASB text. (That omitted text is set out in Appendix B.) They think IASB text should be reproduced faithfully throughout the Framework.</p>	<p>At its last meeting, the Board confirmed the omission of the IASB text because that text:</p> <ul style="list-style-type: none"> • was excluded from the existing AASB Framework; • discusses the need for an international Framework to address global diversity of reporting practices,¹ and matters mainly covered in the Objective chapter; and • in sub-paragraphs (e), (g) and (h) contradicts the narrowing of primary users in

¹ If the AASB reaffirms its approach of issuing the revised Framework as its own, rather than as an ‘IASB equivalent’ (see Issue 1 above), such discussion would seem out of place.

		<p style="text-align: center;">the Objective chapter.</p> <p>For these reasons, staff recommends reaffirming the Board’s decision to omit the IASB text.</p>
6. Chapter 1	<p>One member said: “I know the Board has decided against it, but I would reiterate my support for a more direct reference to providing information on accountability or stewardship being an objective in its own right for NFPs. In the absence of that, Aus OB16.1 will have to suffice.”</p>	<p>This issue is discussed in paragraphs 5 – 8 and 28 – 29 of Agenda Paper 11.4, which discusses developments in the IPSASB Conceptual Framework project. The staff’s recommendation is not to identify accountability (or stewardship) as an objective in its own right. See Question 1 in Agenda Paper 11.4.</p>
7. Para. OB2	<p>In relation to the reference to “reporting entity” in the first sentence, one member asked: “Has SAC 1 not been superseded? It is still referred to in the footnote in the present tense.”</p>	<p>The nub of this comment is that it is confusing to say SAC 1 is superseded from the AASB Framework but retained as a living document for referencing in application of AASB 1053. To reduce the risk of confusion, staff recommends omitting footnote “**” from paragraph OB2.</p>
8. Para. AusOB3.1	<p>One member said: “I am not sure why the proposed wording in paragraph AusOB3.1 first sentence has been changed. I prefer the previous wording which more accurately stated that “resource providers are generally not concerned with obtaining a financial return on an investment ...”. This is particularly true in the public sector where there is no concept of ‘investment’ and therefore ‘financial return’, at least in regard to GGS entities.”</p>	<p>The previous change was made in response to a Board member’s comment. Staff recommends reverting to the previous wording of the first sentence, for the reasons given at the left by a Board member. Staff observes that the importance to all entities of information for assessing future cash flows² does not mean that users of GPFRs of NFPs are interested in a financial return on an investment.</p>

² The AASB has previously decided IASB Framework text about the importance of providing information for assessing future cash flows should apply to all entities. Not-for-profit entities consume cash in financing their service delivery activities and therefore need to obtain cash to continue those activities; users of their GPFRs will therefore be interested in assessing their future cash inflows and outflows.

APPENDIX A

Specific comments from Board members regarding the status of SAC 1 (re the first paragraph of ‘This version of the AASB Conceptual Framework’ in the Foreword)

One member said: “I agree with reference to SAC 1 just in the Foreword. However, I am concerned we seem to be saying in the Foreword SAC 1 is being superseded when the new Framework applies (after 1 July 2011?). As I understand it, it will continue to apply until we determine we are going to change it. I suggest we may need to revise 1053 to make it clear you apply SAC 1 in determining reporting entity for the purpose of that Standard. I think it’s highly unlikely we will have determined to remove the reporting entity concept in Australia before 2011.”

Another member said: “This section is confusing. What is the status of SAC 1? Is it part of the Framework under the IAS 8 hierarchy?” In relation to the second paragraph, which refers to Chapter 4, the member said: “Chapter 4 does not contain SAC 1, so I presume SAC 1 is outside the Conceptual Framework as now defined? Because ‘reporting entity’ is used to mean two different things, it is unclear here what has been done. Reference is made above that Chapter 2 will deal with the reporting entity concept, but this is not the reporting entity concept contained in SAC 1.”

Another member said they “totally agree with your conclusion regarding reference to/inclusion of SAC 1 and reporting entity ... but it really worries me continuing to even have the SAC 1 stuff at all. Very confusing. The sooner the reporting entity bit is dealt with the better!”

A fourth member said: “At face value, the footnotes regarding SAC 1 on pages 8 and 12, the comments in the Foreword (page 3) and Application paragraph 1.3 are unclear/contradictory. That is:

- (1) The Foreword says: “When this Conceptual Framework is applicable, SAC 1 and SAC 2 are superseded”.
- (2) Application paragraph 1.3 says that this Conceptual Framework supersedes the AASB (2004) Framework (i.e., but no mention is made regarding SAC 1 or SAC 2 being superseded; if SAC 1/SAC 2 is being superseded I would have thought this needs to be included in the body of the Framework—as was the case when SAC 3 and SAC 4 were superseded—refer Aus paragraph 1.4; not just in a Foreword).
- (3) The Footnote to Chapter 1, on page 8, says that the reference to ‘reporting entity’ in ‘this’ Conceptual Framework means an entity that presents GPFs (which is narrower than SAC 1 and the SAC 1 meaning does not apply to ‘this’ Conceptual Framework).
- (4) The Footnote to Chapter 2, on page 12 (blank chapter on the reporting entity) says that ‘for the time being, the guidance on the reporting entity concept in SAC 1 is relevant for identifying the characteristics of entities required to prepare GPFs’.

So what really is being said?

I thought that ... SAC 1 ... was not going to be superseded until either the IASB Chapter 2 was completed or until Phase II of the differential reporting project (proposing to omit ‘reporting entity’ from the application paragraphs in Australia) was finalised. But the Foreword seems to contradict this, and the [added] Footnote on page 8 (which does not apply the SAC 1 definition) and page 12 (which says the SAC 1 definition is still relevant) is also confusing/conflicting.”

APPENDIX B

IASB text omitted from Introduction to original and revised AASB Framework

“Financial statements are prepared and presented for external users by many entities around the world. Although such financial statements may appear similar from country to country, there are differences which have probably been caused by a variety of social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements.

These different circumstances have led to the use of a variety of definitions of the elements of financial statements: for example, assets, liabilities, equity, income and expenses. They have also resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement. The scope of the financial statements and the disclosures made in them have also been affected.

The International Accounting Standards Board is committed to narrowing these differences by seeking to harmonise regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. It believes that further harmonisation can best be pursued by focusing on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.

The Board believes that financial statements prepared for this purpose meet the common needs of most users. This is because nearly all users are making economic decisions, for example:

- (a) to decide when to buy, hold or sell an equity investment.
- (b) to assess the stewardship or accountability of management.
- (c) to assess the ability of the entity to pay and provide other benefits to its employees.
- (d) to assess the security for amounts lent to the entity.
- (e) to determine taxation policies.
- (f) to determine distributable profits and dividends.
- (g) to prepare and use national income statistics.
- (h) to regulate the activities of entities.

The Board recognises, however, that governments, in particular, may specify different or additional requirements for their own purposes. These requirements should not, however, affect financial statements published for the benefit of other users unless they also meet the needs of those other users.

Financial statements are most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concept. Other models and concepts may be more appropriate in order to meet the objective of providing information that is useful for making economic decisions although there at present no consensus for change. This *Conceptual Framework* has been developed so that it is applicable to a range of accounting models and concepts of capital and capital maintenance.”