

## **Manner in which the 2010 IASB Chapters should be incorporated into the Australian Framework**

### **AASB Staff Issues Paper**

#### **Introduction**

- 1 This AASB Staff Issues Paper has been prepared by staff to resolve a sweep issue that requires addressing prior to finalising the AASB's planned revised Framework document that incorporates the two chapters (objective and qualitative characteristics) of the IASB's *Conceptual Framework for Financial Reporting* issued by the IASB in September 2010.
- 2 At its December 2010 meeting, the Board decided to issue a revised AASB Framework applicable to for-profit entities that is identical to the revised IASB Conceptual Framework, and, for the time being, to retain the existing text of the *AASB Framework for the Preparation and Presentation of Financial Statements* ('AASB Framework') (July 2004) (including its 'Aus' paragraphs) for application by not-for-profit entities. The Board did not decide how this should be actioned. The approach taken by staff in the fourth pre-ballot draft (circulated to Board members on 19 July 2013) was to effect the Board's decision by preparing a 'compiled' Framework document that carried over text of the *AASB Framework* into the associated Chapters of the IASB's *Conceptual Framework for Financial Reporting*.
- 3 Staff received feedback from a Board member on the fourth pre-ballot draft indicating a serious concern that the document may not adequately reflect the AASB's transaction-neutral positioning, given the proposed structure of the document which he considered had an awkward division between text related to for-profit and not-for-profit entities. He is also very concerned that a more fulsome editing of the remaining chapters will need to be redone when the IASB further amends its Conceptual Framework. That Board member expressed a preference for the two new IASB chapters (objective and qualitative characteristics) to cover, in the manner set out in paragraph 4 below:
  - a. both sectors as soon as possible (his preferred approach – Approach 1(a), refer paragraph 6) or,
  - b. temporarily, only the for-profit sector (alternative approach – Approach 1(b), refer paragraph 6).
- 4 The Board member does not see (a) as being difficult to achieve quickly and does not see the value in complex consequential editing of other chapters of the Framework (reporting entity, elements, disclosure etc) when the rest of the Framework is under review. He would, therefore, argue against performing a compilation of the revised and existing chapters of the AASB Framework. He would place the revised two chapters alongside the existing *AASB Framework* (July 2004) and simply state that the chapters amend the respective parts of the existing *AASB Framework* (July 2004) and that the *AASB Framework* (July 2004) is otherwise still in place, to be overhauled once the IASB revised Conceptual Framework is in place. The Board member does not want to see multiple changes to the *AASB Framework* beyond the addition of the revised IASB chapters, learning from the complexities arising from the ongoing

amendments to IFRS 9 *Financial Instruments*. He also envisages that when the reporting entity chapter of the Conceptual Framework is put in place by the IASB, the AASB will need to revise that chapter for the wider scope of the Australian Framework and possibly for where the Board decides to move on special purpose reporting. Either now or by that time, the IASB chapters on the objective of general purpose financial reporting and on the qualitative characteristics of useful financial information will need to be updated.

- 5 Staff are cognisant that a significant amount of time has passed since the Board last considered a revised AASB Framework. During this period, the IASB has recommenced work on its Conceptual Framework project including reconsideration of its approach to its staged amendment of the IASB Conceptual Framework. Rather than the multiple-staged approach it first proposed (including Stage G, which would have considered the applicability of the IASB Conceptual Framework to entities other than for-profit entities), the IASB is currently proposing that the project should focus on elements of financial statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure. Given the revision to the IASB's approach since December 2010, the Board may similarly wish to revisit the approach it will now take to revising the AASB Framework. The case for doing so may also be affected by how the Board's approach to using the reporting entity concept in the scope clauses of standards might be affected by the ongoing research and discussions about special purpose reporting. We are not as advanced on that topic as we might have hoped in December 2010.
- 6 Staff think it is necessary to seek a clear direction from the Board at this meeting regarding the incorporation of the two IASB chapters issued in September 2010 in order to progress work on this project. The two approaches that the Board is asked to consider are:
- Approach 1: Amend the AASB *Framework* (July 2004) to include the two revised IASB Chapters, along the lines set out in paragraph 4 above, either for:
    - (a) both for-profit and not-for-profit entities; or
    - (b) only for-profit entities.
  - Approach 2: A 'compiled' approach that blends the text of the existing AASB *Framework* (July 2004) into the IASB's revised Conceptual Framework document, and also does some aligning of the existing AASB Framework with the IASB Conceptual Framework (the fourth pre-ballot draft approach).

Given the status of the Framework in the hierarchy, staff do not think that the Board should simply wait until the IASB Conceptual Framework is completely revised. In other words, doing nothing is not a viable option.

### **Approach 1: Amend the AASB *Framework* (July 2004) to include the two revised IASB Chapters**

- 7 As noted in paragraph 4 above, a Board member would prefer for there not to be a compilation of the revised and existing chapters of the AASB *Framework* (July 2004). Under his proposed approach, the revised two chapters would be presented alongside

the existing AASB *Framework* (July 2004), noting that the chapters amend the respective parts of the existing AASB *Framework* (July 2004) and that the AASB *Framework* (July 2004) is otherwise still in place, to be overhauled once the IASB revised Conceptual Framework is in place. Staff would action this via an Amending Document, the form of which is yet to be determined.

- 8 This approach could be adopted for both for-profit and not-for-profit entities (Approach 1(a)), or only in respect of for-profit entities (Approach 1(b)).
- 9 Staff note that at its December 2010 meeting, the Board had decided to incorporate the IASB's general Introductory paragraphs into a revised AASB Framework applying to for-profit entities. These paragraphs had been carried over from the IASB's previous Framework, but had not been included in the AASB *Framework* (July 2004). To be consistent with the principle behind this approach, these general Introductory paragraphs would not be included as part of the amendments proposed to the AASB *Framework* (July 2004).
- 10 Advantages and disadvantages of Approach 1(a) (both for-profit and not-for-profit entities) include:

*Advantages:*

- The content of the AASB Framework is updated to be in line with the IASB's Conceptual Framework.
- The content appears less complex as the existing AASB *Framework* (July 2004) is retained in a separate document from an Amending Document introducing the two new Chapters.

*Disadvantages:*

- The existing AASB *Framework* (July 2004) is retained, albeit in amended form.
- The revised AASB Framework is not as user friendly as entities will need to reference two different documents.
- In making the IASB *Conceptual Framework for Financial Reporting*, the IASB carried over a number of paragraphs from its existing framework document. These paragraphs were renumbered when incorporated into the revised IASB Conceptual Framework document, e.g. paragraph 47 is now paragraph 4.2. Under approach 1, the numbering of the existing paragraphs in the AASB *Framework* (July 2004) will not be revised, and accordingly creates an apparent difference between the AASB Framework and the IASB equivalent document.

- 11 Advantages and disadvantages of Approach 1(b) (for-profit entities only) include:

*Advantages:*

- The content of the AASB Framework for for-profit entities is updated to be in line with the IASB's Conceptual Framework.
- The content appears less complex as the existing AASB *Framework* (July 2004) is retained in a separate document from an Amending Document introducing the two new Chapters.
- Less apparent emphasis on a distinction between for-profit /not-for-profit entities.

*Disadvantages:*

- The existing AASB *Framework* (July 2004) is retained, albeit in amended form.

- The revised AASB Framework is not as user friendly as for-profit entities will need to reference two different documents.
- In making the IASB *Conceptual Framework for Financial Reporting*, the IASB carried over a number of paragraphs from its existing framework document. These paragraphs were renumbered when incorporated into the revised IASB Conceptual Framework document, e.g. paragraph 47 is now paragraph 4.2. Under approach 1, the numbering of the existing paragraphs in the AASB Framework (July 2004) will not be revised, and accordingly creates an apparent difference between the AASB Framework and the IASB equivalent document.

## Approach 2: A ‘compiled’ approach (the fourth pre-ballot draft approach)

- 12 Under this approach, the document is laid out in Chapters consistent with the IASB’s *Conceptual Framework for Financial Reporting* (September 2010), with the addition of “Aus” paragraphs. The document would supersede the existing AASB Framework (July 2004).
- 13 The “Aus” paragraphs would mainly appear in Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information* to incorporate the existing text of the AASB Framework (July 2004) detailing the related concepts for application by not-for-profit entities. There would also be consequential amendments to the Framework document, albeit confined to changes caused by improving the consistency between the AASB Framework and the IASB’s document, and some other editing.
- 14 The fourth pre-ballot draft included text in the preface and text boxes throughout the body of the document to draw user attention to the paragraphs applicable to for-profit and not-for-profit entities (‘signposts’). The Board member commenting was very concerned that the navigation and wording of the document was complex and that it inadvertently seemed not to be in keeping with our sector neutral approach. In order to alleviate some of the concern raised by the Board member, staff could ‘soften’ the preface and the ‘signposts’ so as not to draw undue attention to the separate paragraphs applicable to not-for-profit entities, and to emphasise that the concepts have not yet been reviewed in respect of not-for-profit entities.
- 15 Advantages and disadvantages of this approach include:

### *Advantages:*

- The AASB Framework for **for-profit entities** is updated to be consistent with the IASB’s Conceptual Framework as it stands after the issue of Chapters 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information*.

### *Disadvantages:*

- Structures of the subsections under the for-profit and not-for-profit sections are very different and add to the complexity of the document.
- The extended length of the revised document (circa 60 pages excluding the AASB’s Basis for Conclusions) is not as user friendly.
- The extensive usage of “Aus” paragraphs – there are 42 “Aus” paragraphs included in Chapter 1 and Chapter 3 – could be regarded as being apparently

inconsistent with the AASB's policy in relation to their use<sup>1</sup>, even though the intention is for this position to be temporary.

- The document may not be adequately reflective of the AASB's transaction-neutral positioning, given the structure of the document in relation to for-profit and not-for-profit entities.
- The compiled version will face further revisions as the IASB deals with further areas, possibly even with minor amendments to the chapters for alignment or stylistic purposes.

#### *Staff View*

- 16 On balance, the staff preferred view is Approach 2 as staff consider it important that the 'look' of the document should be consistent with that of the equivalent IASB document. Staff could also accept Approach 1 (in the same preference order as the Board member suggests). Whichever approach is adopted, staff note that it will need to clearly communicate to constituents the plan for the future revision or revisions of the AASB Framework.

#### **Question for the Board:**

- Q1(a) Does the Board agree with the staff preferred view, Approach 2, as outlined in paragraphs 12 – 15 above?
- Q1(b) If not, does the Board support Approach 1, and if so, does the Board support Approach 1(a) (both for-profit and not-for-profit) or 1(b) (for-profit only)?

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1 AASB document 'AASB Policies and Processes' notes that the AASB includes Aus paragraphs in the IFRSs it adopts to cater for the needs of not-for-profit entities in the public and private sectors where additional guidance is needed or where the requirements in an IFRS are not appropriate to those entities.