



Australian Government  
Australian Accounting Standards Board

## Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	4 December 2013
<b>From:</b>	<b>Jim Paul</b>	<b>Agenda Item:</b>	8.1
<b>Subject:</b>	<b>IASB Conceptual Framework Discussion Paper</b>	<b>File:</b>	

### Action

To decide the Board's views on the key issues to comment on in the Board's submission on IASB DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*\*

\*A full copy of the IASB DP is included in AASB Invitation to Comment ITC 29 (July 2013), accessible at: [http://www.aasb.gov.au/admin/file/content105/c9/ITC29\\_07-13.pdf](http://www.aasb.gov.au/admin/file/content105/c9/ITC29_07-13.pdf)

### Attachments

Agenda Paper No.	Agenda Paper Details
8.2	Extract from draft Board submission on IASB DP/2013/1 (for considering key issues only – those issues are identified later in this memorandum)
8.3	Notes on AASB Forums held in October 2013 regarding IASB DP/2013/1
8.4	Comment letters received on AASB Invitation to Comment ITC 29 (incorporating IASB DP/2013/1)

### Overview

Submissions to the IASB on DP/2013/1 are due by 14 January 2014. To date, seven comment letters have been received on AASB ITC 29. The first six were despatched in the first mailout of Board papers for this meeting; the seventh (from HoTARAC) is attached as an update of Agenda Paper 8.4. All seven letters were considered by AASB staff in drafting the attached extract from the draft Board submission (Agenda Paper 8.2).

At the Board meeting, AASB staff will provide an oral overview of the comment letters and the feedback received during the Board's Forums (as summarised in Agenda Paper 8.3).

### Background to Agenda Paper 8.2

AASB staff have departed from the usual approach of providing an issues paper for deliberation by the Board in formulating its key points to make on an IASB DP. To save time, in view of the short timeframe for developing a draft submission on such a broad-ranging DP, AASB staff are providing Board members with an extract from the initial staff draft of the submission on IASB DP/2013/1. Board members are requested to comment only on the key views included in the draft submission

(see questions below). Drafting suggestions, while welcome, are requested to be provided to AASB staff out-of-session.<sup>1</sup>

The extract from the draft submission is intended to cover all key concerns previously raised by Board members during non-deliberative ‘educational’ sessions held on the IASB DP in May, July, September and October 2013.

## ***Questions for Board members on the key issues***

### General questions

- (a) Do you agree that the ‘fatal flaws’ (and the staff draft of the Board’s views) identified in the draft covering letter and elaborated on in Appendix A are appropriate? For example, are any fatal flaws missing (or insufficiently elevated), and are any of those identified in the draft inappropriately characterised as a ‘fatal flaw’?
- (b) Do you agree with the main views expressed in Appendices B and C of Agenda Paper 8.2? Are any key concerns missing from Appendix B, and are any of those expressed in the draft inappropriately characterised as ‘key’?

### Specific questions on draft comments (on key issues) developed beyond previous discussions

- (c) Regarding a probability-based recognition criterion (see paragraphs B10 – B23 of Agenda Paper 8.2), do you agree with recommending ‘probable’ rather than ‘more than remote’ (*mixed views were previously provided*)?
- (d) Regarding financial instruments puttable at fair value (see paragraphs B56 – B75), do you wish to recommend one of the two approaches summarised in paragraph B74 (*the draft response ventures that either approach might be conceptually appropriate*)?
- (e) Do you agree that the second approach canvassed for financial instruments puttable at fair value (i.e. focusing on whether the holder is acting in their capacity as owner: per paragraphs B69 – B73) would, if adopted, have important implications for the classification of obligations to issue equity instruments (see paragraphs B76 – B77)?
- (f) Regarding the need for the IASB Conceptual Framework to identify an ideal concept of wealth (in the context of measurement), do you agree with advocating a particular concept (namely, operating capability: see paragraphs B83 – B134)? (*AASB staff acknowledge that this would be a bold step, but think advocating operating capability is integral to explaining why it is inappropriate to base the measurement of assets on whether they are expected to generate cash flows directly, and to tackling what appears to be an implication of the DP that current market exit prices are the only alternative to historical cost worth considering.*)

## **Process for finalising submission**

Following the Board meeting, an updated draft submission (including Appendix D: the responses to the specific matters for comment in the DP, which is not included in Agenda Paper 8.2) will be circulated to Conceptual Framework Subcommittee members (Peter Gibson, Jayne Godfrey, Brett

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<sup>1</sup> The attached extract from the draft submission is an initial draft and will be tidied up to reduce repetition and enhance its clarity and structure for easier identification of the topics discussed.

## Memorandum

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Rix and Kevin Stevenson) for comment. In addition, given the importance of the DP, other Board members will be provided the updated draft submission for providing any input they wish to.

AASB staff recommend that, subsequently, the final draft submission be reviewed and approved by the Chairman. ***Do Board members agree with this process?***