



Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB Members	Date:	23 June 2015
From:	Angus Thomson & Evelyn Ling	Agenda Item:	4.1 (M146)
Subject:	Conceptual Framework	Project Priority	High
Project Status:	Project planning	Decision-Making:	High

Actions

- 1 Consider the strategy suggested by staff in responding to IASB ED/2015/3 *Conceptual Framework for Financial Reporting* (including the targeting of selected issues) and ED/2015/4 *Updating References to the Conceptual Framework*.
- 2 Consider the issues that should be targeted.

Links to Related Documents

- 3 The following are links to the recently issued AASB Exposure Drafts related to this project:
 - (a) AASB ED 264 *Conceptual Framework for Financial Reporting* incorporating IASB ED/2015/3 is located at the following link:
http://www.aasb.gov.au/admin/file/content105/c9/ACCED264_06-15.pdf
 - (b) AASB ED 265 *Updating References to the Conceptual Framework* incorporating IASB ED/2015/4 is located at the following link:
http://www.aasb.gov.au/admin/file/content105/c9/ACCED265_06-15.pdf
- 4 The Conceptual Framework project summary includes links to previously issued AASB documents related to the conceptual framework, and past submissions to the IASB and IPSASB on their current/recently completed conceptual framework projects. The project summary is accessible from the following link:¹
http://www.aasb.gov.au/admin/file/content102/c3/Conceptual_Framework_Project_Summary_24_Dec_2014.pdf

Overview of Agenda Paper 4.1

- 5 The remainder of this memorandum is set out in the following manner:
 - (a) Background (paragraphs 6 – 8);
 - (b) Suggested strategy (paragraphs 9 – 18);
 - (c) Board advisor commitment (paragraphs 19 – 22);

¹ Staff will update the project summary following the AASB July 2015 meeting.

- (d) Questions for Board Members (following paragraph 22);
- (e) Appendix A: Proposed project plan timeline showing key actions/events (page 6); and
- (f) Appendix B: Issues to be raised in AASB Submission (page 7).

Background

6 In broad terms, the AASB's adoption of the IASB's conceptual framework is as follows:

Date	AASB Document	Comment
2004	<i>Framework for the Preparation and Presentation of Financial Statements</i> ('Framework')	<p>The AASB replaced the parts of the existing Australian conceptual framework (SAC 3 <i>Qualitative Characteristics of Financial Information</i> and SAC 4 <i>Definition and Recognition of the Elements of Financial Statements</i>) that overlap with the Framework. The AASB retained SAC 1 <i>Definition of the Reporting Entity</i> and SAC 2 <i>Objective of General Purpose Financial Reporting</i>, which covered areas not addressed by the IASB Framework.</p> <p>The AASB incorporated not-for-profit specific paragraphs, where necessary, to help clarify the concepts from the perspective of not-for-profit entities in the private and public sectors.</p>
2013	<i>Revised Framework for the Preparation and Presentation of Financial Statements</i>	<p>Revisions made via AASB CF 2013-1 <i>Amendments to the Australian Conceptual Framework</i> to incorporate the IASB's Chapter 1 <i>The objective of general purpose financial reporting</i> and Chapter 3 <i>Qualitative characteristics of useful financial information</i> and, consequently, supersede SAC 1 and SAC 2. These IASB chapters were developed jointly by the IASB and the FASB.</p> <p>The AASB incorporated limited not-for-profit specific paragraphs to help clarify the concepts from the perspective of not-for-profit entities in the private and public sectors.</p>

7 Since the IASB chapters on the objective of general purpose financial statements and qualitative characteristics of useful financial information were issued (September 2010), there have been the following due process documents issued and AASB comments made:

Date	AASB Document	Comment
July 2013	AASB ITC 29 incorporating IASB DP/2013/1 <i>A Review of the Conceptual Framework for Financial Reporting</i>	<p>The AASB responded to the IASB in two parts. In February 2014, the AASB made a submission focusing on principles, rather than specifically addressing the questions asked in IASB DP/2013/1.</p> <p>In June 2014, the AASB made a submission addressing the questions asked in IASB DP/2013/1.</p>

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Date	AASB Document	Comment
June 2015	AASB ED 264 incorporating IASB ED/2015/3 <i>Conceptual Framework for Financial Reporting</i> AASB ED 265 incorporating IASB ED/2015/4 <i>Updating References to the Conceptual Framework</i>	Comments are due to AASB by 5 October 2015. Comments are due to IASB by 26 October 2015.

8 Other key matters to note are that:

- (a) in October 2014, the IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*;
- (b) the New Zealand Accounting Standards Board (NZASB) is in the process of considering how it will use the IPSASB Framework; and
- (c) the IASB is using the Accounting Standards Advisory Forum (ASAF) as its Conceptual Framework consultative group.

Suggested Strategy²

9 The AASB's responses to the IASB DP/2013/1 were comprehensive and essentially identified all the matters that would need to be addressed to achieve the type of conceptual framework that the AASB would ideally like to have. In particular, the AASB identified key weaknesses in the proposed revised conceptual framework, including an absence of fundamental concepts of measurement and presentation. A limited number of other respondents (including the NZASB) took the same approach. The majority of respondents took what might be regarded as a more pragmatic approach.

A targeted approach

- 10 AASB staff consider that the manner in which the AASB responded to DP/2013/1 remains entirely valid, but that the AASB's efforts in responding to ED/2015/3 should:
- (a) be more targeted; and
 - (b) focus on the coherence and internal consistency of the proposals, rather than necessarily arguing for different 'ideal' concepts.
- 11 With that in mind, the AASB staff propose that the AASB submission should identify and concentrate on several (e.g. three, but no more than four) key issues. At this time, staff think these issues should relate to the following:
- (a) measurement;
 - (b) the use of profit and loss and other comprehensive income; and

2 Staff have not outlined in this memorandum social media and other activity that staff may undertake as part of outreach on this project.

(c) the proposed revision to the liability definition.

- 12 In addition, staff would propose ensuring that the AASB provides at least high level comments on all the other issues raised by in IASB/ED/2015/3, such as the proposed inclusion of ‘stewardship’ in the discussion on the objective of financial reporting and the inclusion of ‘prudence’ in the discussion of qualitative characteristics³, and comments in response to the specific questions posed in IASB ED/2015/4.
- 13 Appendix B to this memorandum briefly describes the staff suggested key issues noted in paragraph 11 above.

A collaborative approach – working with the NZASB

- 14 In line with the AASB strategy, staff have been exploring how best to work with NZASB staff on agreed common issues when developing the AASB response to the IASB ED, so as to provide greater weight to the submissions when considered by the IASB. This may include some or all of the key targeted issues identified by staff.
- 15 The NZASB have established a subcommittee⁴ to address its response to the IASB ED. A AASB Board member has suggested having a joint subcommittee with the NZASB. Staff do not recommend that a formal joint subcommittee be established (staff note that Kris Peach and Kimberley Crook sit on both the AASB Board advisor group and the NZASB subcommittee) – rather, the staff recommendation is for the project staff of both Boards to work in communication with each other.
- 16 Staff will liaise with other standard-setters as necessary.

Achieving sector neutrality – addressing not-for-profit and public sector specific issues

- 17 As part of its analysis and outreach activity, staff expect to consider the applicability of the IASB ED proposals to the Australian not-for-profit and public sectors. Staff note that AASB ED 264 and AASB ED 265 include the normal AASB request seeking public comment on any not-for-profit or public sector issues. Accordingly, staff anticipate that any significant not-for-profit or public sector issues with the IASB’s proposals will be highlighted as part of submissions received by the AASB.
- 18 The staff proposal is for:
- (a) for the Board’s submission on the IASB ED to reflect recommendations that are necessary for a revised Conceptual Framework to be operable across sectors in Australia; for example, to definitions or measurement discussion;
 - (b) for the Board to first issue a AASB Conceptual Framework incorporating the final IASB Conceptual Framework without any not-for-profit or public sector modifications;
 - (c) as part of staff analysis to be conducted during and subsequent to the AASB submission to the IASB ED, for staff to consider the appropriateness of the IPSASB Conceptual Framework to Australian entities;

3 For example, staff propose that the submission would include comment about the inconsistency between prudence and neutrality, and observe that the proposed references to stewardship are suitably integrated into the overall objective of general purpose financial statements (and provide a link with the IPSASB objectives of financial reporting).

4 Kimberley Crook, Kris Peach, Carolyn Cordery and Karl Hickey.

- (d) at its first Board meeting following issue of a revised IASB Conceptual Framework, the Board to discuss Aus paragraphs that may be necessary following review of the final wording. (That is, there would be a time lag between the issue of a revised Conceptual Framework, and any amendments to clarify the concepts from the perspective of not-for-profit entities in the private and public sectors).

Board Advisor Commitment

- 19 The AASB Board advisors for the Conceptual Framework project are: Kris Peach, Kimberley Crook, Mike Blake, Peter Gibson, Ann Tarca and Megan Wilson.
- 20 As there are only two further Board meetings (2-3 September and 21-22 October) before the comment period on the IASB Exposure Draft closes (26 October), staff expect to significantly rely on the Board advisors to provide input to the development, out-of-session, of the AASB response to the IASB Exposure Drafts.
- 21 The Board advisor commitment will likely be in the form of email requests for comment from staff and teleconferences on an 'as needed' basis between AASB staff and Board advisors to develop the AASB key responses (which will be subject to subsequent discussion by the Board at a public AASB meeting), as well as consideration of the draft responses to be included in the AASB submission. Staff expect that greater Board advisor input is likely to be required in the period mid-September to mid-October.
- 22 Further, depending on the Board's decisions in relation to working closely with New Zealand on the respective individual submissions to the IASB (see below), if needed, staff will organise a joint meeting with the NZASB sub-committee to discuss the key issues that each Board will raise.

Questions for Board Members

- Q1 Do Board members agree with the staff suggested strategy of targeting selected issues in responding to ED/2015/3?
- Q2 Do Board members agree with targeting the three key issues identified by the staff in Appendix B, or are there other issues that members would like to target?
- Q3 Do Board members agree with the staff proposal for staff to work with NZASB staff on selected key issues?
- Q4 Do Board members agree with the staff proposal for not-for-profit amendments to a revised Conceptual Framework to be considered subsequent to the issue of a revised Conceptual Framework?

APPENDIX A: Proposed Project Plan Timeline showing Key Actions/Events

Key Action/Event	Responsibility	Key Date(s)
Agree AASB strategy for responding to the IASB ED	AASB members	8 July 2015
Provide AASB comments on IASB Conceptual Framework ED topics included on ASAF ⁵ agenda	AASB staff	Early July 2015
Analyse IASB ED proposals	AASB staff, involving Board advisors as necessary	July – September 2015
Melbourne outreach activity (e.g. roundtable)	AASB staff and (available) AASB members	10 August 2015
Sydney outreach activity (e.g. roundtable)	AASB staff and (available) AASB members	11 August 2015
AASB Board meeting: Project update, decide AASB tentative response to key issues	AASB members	2-3 September 2015
Canberra outreach activity (e.g. roundtable)	AASB staff and (available) AASB members	7 September 2015
Provide AASB comments on IASB Conceptual Framework ED topics included on ASAF ⁶ agenda (if included on agenda).	AASB staff, involving Board advisors as necessary	Late September 2015
AASB ED 264 and ED 265 comment period closes		5 October 2015
Agenda papers for October AASB meeting finalised <i>(Depending on the comments received, agenda papers may be circulated after this date)</i>	AASB staff, involving Board advisors as necessary	6 October 2015
AASB Board meeting: Discuss comment letters, sweep issues	AASB members	21-22 October 2015
Comment letter review	AASB Chair, involving Board advisors as necessary	23-26 October 2015
IASB ED comment period closes		26 October 2015
Analyse IPSASB Conceptual Framework for appropriateness of adoption by Australian not-for-profit and public sector entities	AASB staff	Post 26 October 2015

5 If reappointed to ASAF. At a minimum, staff expect to contribute to the AOSSG comments on the ASAF agenda topic.

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APPENDIX B: Issues to be raised in the AASB Submission

A1 As noted in paragraph 11, staff consider the Board should target the following issues:

- (a) measurement;
- (b) the use of Profit and Loss and Other Comprehensive Income; and
- (c) the proposed revision to the definition of a liability.

Measurement

A2 There are a number of important matters that the AASB staff consider the Board should address in its comment on IASB ED/2015/3 in relation to the proposals on measurement.

A3 IASB ED/2015/3 identifies two measurement bases: historical cost and current value. This is an improvement on IASB DP/2013/1, which identified three categories of measurement – cost-based measurements; current market prices, including fair value; and other cash-flow based measurements. The AASB, along with many others, noted that cash-flow based measurements are more of a technique for achieving other measurement bases, rather than being a basis in itself.

A4 In the section on historical cost (paragraph 6.18 in particular), current cost and historical cost are identified as entry values, which is reasonable; but IASB ED/2015/3 then concludes that they are both different from the current value measurement bases identified later in Chapter 6. A specifically unstated implication is that the two classes of measurement bases in IASB ED/2015/3 are entry and exit measures. However, the later discussion in Chapter 6 about the features that characterise current values could all be met by a current entry price measure, which is consistent with the inclusion of the ‘cost’ approach in IFRS 13 *Fair Value Measurement*.

A5 Chapter 6 also identifies classes of current value measures in a manner that appears to imply ‘value in use’ measures cannot be based, even in part, on observable market inputs.

A6 Staff consider that the AASB could make a significant contribution to helping the IASB improve Chapter 6 of the IASB’s Framework.

The proposed revision to the definition of a liability

A7 Under the proposed revision to the definition of a liability, an entity has a present obligation to transfer an economic resource if the obligation has arisen from past events and the entity has no practical ability to avoid the transfer.

A8 The inclusion of the condition ‘no practical ability to avoid’ may result in more transactions meeting the definition of a liability, and could for example, result in recognised provisions for future maintenance. Under the proposed definition, situations of economic compulsion may meet the definition of liabilities. Staff think that this is a key area in which we could suggest improvements that would avoid the potential problems associated with the current proposal.

The use of profit and loss and other comprehensive income

A9 IASB ED/2015/3 regards the statement of profit and loss as the primary source of information about a reporting entity’s performance. Paragraph 7.26 notes that there is a rebuttable presumption that income or expenses included in other comprehensive income will be reclassified into the statement of profit or loss in some future period, when the reclassification enhances the relevance of the information included in profit or loss. For example, an asset revaluation gain may potentially be recycled into profit and loss under the ED proposals.

- A10 The AASB, in its response to IASB DP/2013/1, communicated that the Board fundamentally disagreed with the bifurcation of comprehensive income, and with addressing recycling in the conceptual framework – both of which are carried forward into IASB ED/2015/3.
- A11 Since it is highly likely that the profit or loss and other comprehensive income distinction will be embedded into a revised Conceptual Framework, staff think it is important for the AASB to contribute to the articulation of clear principles around the distinction and around any recycling. Staff also think the AASB should target this area in its response because of the varied international views on the acceptability of recycling, which have historically differed from our own.