Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Conceptual Framework	**Meeting**	AASB October 2015 (M148)
Topic:	Consider draft response to the IASB EDs	**Agenda Item:**	3.1
Contact(s):	Evelyn Ling eling@aasb.gov.au (03) 9617 7631	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Form views on IASB proposals

Introduction and objective of this paper

1 The objective of this paper is to:

(a) seek Board member views on the draft AASB submission to IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB ED/2015/4 *Updating References to the Conceptual Framework*. The draft submission is included as Appendix B to this staff paper.

(b) agree on the process for finalising the AASB submission.

Link to project summary

http://www.aasb.gov.au/admin/file/content102/c3/Conceptual_Framework_Project_Summary.pdf

Draft AASB submission

Comment letters received by the AASB

2 The comment periods of ED 264 *Conceptual Framework for Financial Reporting* and ED 265 *Updating References to the Conceptual Framework* were deferred to **5 November 2015** following the IASB's decision at its September 2015 meeting to defer the comment period of IASB ED/2015/3 and IASB ED/2015/4 by one month to **25 November 2015**. There is no further Board meeting between the October 2015 meeting and the revised comment letter deadline.

3 At the time of writing this staff paper, three submissions have been received on ED 264:

(a) the Australian Foundation Investment Company Ltd (AFIC);

(b) Australasian Council of Auditors-General (ACAG);

(c) Jukka Rannila.

These comment letters are included as **Agenda Paper 3.2** *Comment letters on ED 264*. Staff will provide a verbal update at the Board meeting on subsequent submissions received. One submission has been received on ED 265 from Jukka Rannila, included as **Agenda Paper 3.3** *Comment letter on ED 265*. Due to the small number of comment letters received at the time of writing this staff paper, and as the comment period to ED 264 and ED 265 has not yet closed, staff have not prepared a separate analysis and collation of comments.

4 In addition to comments received during the Conceptual Framework Discussion Forums[1], at the time of writing this staff paper, staff have also received informal feedback from three constituents. Their comments are summarised in Appendix A to this staff paper.

5 Staff had regard to the comment letters, the discussion forums held in August 2015 and other feedback (including sharing views with NZASB Conceptual Framework subcommittee and NZASB staff) received in developing the draft AASB submission. Staff will have regard to all other constituent comments received before the AASB deadline as part of finalising the AASB submission.

About the draft submission (Appendix B)

6 Following the AASB's September 2015 meeting, staff have further developed the draft submission to consider other aspects of the EDs proposals, with the benefit of input from members of the AASB Conceptual Framework Board advisor group. The staff recommendations are reflected in the draft AASB submission attached as Appendix B. The draft submission is presented in marked up text to reflect amendments to the version considered by the Board at its September 2015 meeting.[2]

7 Staff note that they are planning to further develop the draft submission in the following areas, to the extent time and resources allow:

(a) develop suggested wording to replace the present obligation definition and guidance; and

(b) refine comments on measurement.

Question 1 to the Board[3]

Do Board members agree with the draft submission? If not, what aspects of the submission would Board members like to be amended or further developed?

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1 A summary of the feedback from the Discussion Forum is available here: http://www.aasb.gov.au/admin/file/content102/c3/M147_3.3_Feedback_from_CF_Discussion_Forums.pdf

2 Where preferred, Board members should contact Evelyn Ling (eling@aasb.gov.au) for a clean version.

3 At the Board meeting, staff intend to first seek Board feedback on the specific matters for comment pertaining to the liability definition (Question 3(b) & 4) and measurement (Questions 8-10) before returning to other aspects of the submission.

Finalising the AASB submission to the IASB

8 Staff will further update the draft submission to reflect Board member comments following the October 2015 meeting. Staff recommend that the AASB submission be finalised out-of-session by the Conceptual Framework board advisor group,[4] having regard to any further feedback received from Australian constituents.

Question 2 to the Board
Do Board members agree with the staff recommendation for the AASB submission to be finalised out of session by the Conceptual Framework board advisor group?

4 The members of the Conceptual Framework board advisor group are: Kris Peach, Kimberley Crook, Megan Wilson, Ann Tarca, Peter Gibson, Mike Blake and Andrew Kearnan.

APPENDIX A: Summary of informal feedback received

At the time of this staff paper, staff have received informal feedback from the following constituents:

- public sector (1)
- consultants (2)

A staff summary of their feedback is included in the table below:

Topic	**Comment**
Stewardship	The explicit inclusion of management's stewardship objective makes the Conceptual Framework more relevant to public sector entities.
Reporting entity	The proposals imply that consolidated financial statements should be prepared where separate financial statements are prepared (para 3.25). This is not consistent with current exemptions in practice. The distinction between separate and individual financial statements should be clarified. Differences could arise from this distinction, for example, with equity accounting.
Liability definition	Liability definition may have unintended consequences, particularly with economic compulsion. It is difficult to distinguish a commitment from an obligation using the 'no practical ability to avoid' criterion. The AASB comment letter should consider including reference to the IASB work on provisions and debt/equity.
Income and expense definitions	The definitions should refer to "owners" rather than "holders of equity claims". Control may not be through an equity interest.
Income	The Conceptual Framework should include discussion on distinguishing revenue from other gains. This discussion is important in Australia as 'revenue' is used in some instances to determine regulatory reporting requirements. Revenue should be discussed in the context of income.
Factors to consider in choosing a measurement basis	Relevance and faithful representation as the main factors will help entities to make better choices from the available alternatives. These factors will allow the selection of current value over historical cost as a measurement basis for heritage buildings.

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APPENDIX B: DRAFT COMMENT LETTER

Note 1: This document is a work in progress and has been prepared by staff of the AASB to facilitate the deliberations of the AASB on the IASB's Conceptual Framework Exposure Drafts for the purpose of forming tentative Board views.

Note 2: Staff have not yet actioned the Board's direction from its September 2015 meeting for the comment letter to identify instances of concurrence with the alternative views expressed in ED/2015/3.

Note 3: Staff will include in the cover letter those areas of key concern identified in the Appendix.

[x] ~~October~~ November 2015

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans

IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and
IASB ED/2015/4 *Updating References to the Conceptual Framework*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on IASB/ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB/ED/2015/4 *Updating References to the Conceptual Framework* ('the EDs'). In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB remains supportive of the IASB undertaking its Conceptual Framework project and appreciates the IASB's efforts in issuing the EDs. The AASB is cognisant that there is wide diversity in views on the form and content of a conceptual framework. As part of its redeliberations, the AASB ~~would~~ encourages the IASB to consider the purpose and role of a conceptual framework in its decision-making on this project. The AASB considers that the purpose and role of a conceptual framework is not to describe current practice, conventions or methods, or to provide practical expedients or to manage political differences. ~~Its~~In contrast to paragraph BCIN.18, the AASB considers that the conceptual framework's role is to provide a conceptual basis for ~~standard~~ setting standards and notes that establishing well-crafted concepts is not a simple exercise~~. Practical departures and political differences should be addressed at a standards-level~~.

~~For various reasons commented on in Appendix A to this submission, the AASB thinks that the proposed framework document is not yet sufficiently developed to present as a~~

~~**complete** conceptual framework. The AASB concurs with Mr Cooper and Mr Finnegan that the proposed Chapter 7 is inadequate and represents a missed opportunity to identify a conceptual basis for the use of other comprehensive income (OCI). The Board also concurs with Ms Lloyd and Mr Finnegan that the definition of a liability needs to address both the determination of whether a claim exists and the classification of the claim, and that the Conceptual Framework should ideally include discussion in this regard. Further, the AASB is generally supportive of the views of Mr Finnegan set out in paragraphs AV15-AV33.~~

In redeliberating the project, the AASB encourages the IASB ~~not to be bound by its targeted project completion dates. The IASB should~~ to take ~~the~~ as much time as is ~~needed~~ necessary to evaluate and enhance its proposals so that the final pronouncement reflects a sufficient improvement over the current conceptual framework to warrant its development. The AASB would be pleased to participate in any further targeted outreach, discussions or workshops that the IASB may undertake in this regard, or to contribute to the development of various sections.

For various reasons commented on in Appendix A to this submission, the AASB thinks that the proposed framework document is not yet sufficiently well developed to present as a **complete** conceptual framework. The AASB's preference is for further work to be conducted before a revised Conceptual Framework is finalised. However, ~~I~~if the IASB proceeds to issue a revised Conceptual Framework in the short-term with unresolved issues in various sections, including those relating to the liability definition, measurement and on ~~the~~ income statement presentation, the AASB ~~would support the~~is strongly of the view that the IASB ~~providing~~ should include only limited guidance in those sections. ~~and~~ Furthermore, the IASB should commit~~ting~~ to undertake further work, as a priority, in separate projects to further develop those sections. In that regard, the AASB thinks it is important that the content of the revised Conceptual Framework avoids setting out principles that inadvertently limit the further development and evolution of financial reporting by entrenching current practice, which may not have a conceptual basis, in the Conceptual Framework. The AASB strongly encourages the IASB to note in its Basis for Conclusions to a revised Conceptual Framework any sections of the document that are still under development, and to acknowledge that further work to the conceptual framework is necessary. The AASB would also strongly encourage the IASB to amend, where appropriate, its Conceptual Framework following the outcomes of its projects on the Disclosure Initiative and Financial Instruments with Characteristics of Equity.

The AASB's responses to the specific matters for comment in IASB ED/2015/3 and IASB ED/2015/4 are included in the Appendices to this letter.

If you have queries regarding any matters in this submission, please contact me, Angus Thomson (athomson@aasb.gov.au), or Evelyn Ling (evelynl@aasb.gov.au).

Yours sincerely

Kris Peach
Chair and CEO

APPENDIX A: AASB comments on IASB ED/2015/3 *Conceptual Framework for Financial Reporting*

Question 1 – Proposed changes to Chapters 1 and 2

Do you support the proposals:

(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;

(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;

(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;

(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and

(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

Prominence to management stewardship

The AASB **agrees** with the proposed amendments to Chapter 1 to better clarify the role of management stewardship in providing useful financial information for decision-making. In addition, the AASB recommends amending paragraph 1.2 to refer also to "evaluating decisions" to make more apparent that stewardship contributes to the decision-making objective.

The AASB **supports** the approach in the ED of identifying a single objective of financial reporting. The AASB considers that identifying a single objective of general purpose financial reporting helps with identifying the financial information needs of users that general purpose financial reports should strive to meet and that Standards should be developed to require. The AASB **agrees** with the IASB's rationale in paragraph BC1.10 against identifying stewardship as an additional objective of financial reporting.

The AASB notes that some of its constituents **object** to the reintroduction of the term 'stewardship', as they consider that stewardship has not been adequately described in the ED. Accordingly, the AASB considers that it may be useful to include further guidance on the role of stewardship in informing users about how efficiently and effectively management has used the entity's resources and the implications this has for an entity's ability to generate future cash flows. The AASB also considers there is a link that could usefully be made in the Conceptual Framework between demonstrating stewardship in financial reports and neutrality, given that there would need to be an absence of management bias from information that genuinely demonstrates stewardship.

The AASB is also aware that, in some jurisdictions, there is a view that the Conceptual Framework ED still does not give sufficient prominence to stewardship. The AASB considers this to be, in part, a consequence of the decision of the IASB to limit the focus of the objective of general purpose financial reporting to a primary set of users comprising only investors, lenders and creditors and narrowly describing their decision making interests with respect to financial return. The AASB thinks that remaining concerns about the role of stewardship could best be addressed by acknowledging other decision-making interests of primary users in paragraph 1.2. This could include expanding on the statement in paragraph 1.22 that information is also useful for decisions by users who evaluate management and, for example, have the right to vote on, or otherwise influence, management's actions by voting on executive remuneration or reappointing directors.

Reference to prudence

The AASB **disagrees** with the reintroduction of the term 'prudence'. The AASB does not regard prudence as having the same meaning as neutrality or being consistent with neutrality, but notes that it has been incorporated in such a manner in the ED.

The AASB is concerned that prudence will be interpreted and applied differently not only in different jurisdictions, but to different degrees by different user groups. The AASB has received feedback through its outreach activity on the EDs that most of its constituents are concerned about the historical association, within the accounting profession, of the term 'prudence' with conservatism. It might be better for the IASB to communicate 'cautious prudence' through the use of a different word, for example, 'balance', and to include more guidance about the notions of caution, carefulness, and the absence of management bias, rather than reintroducing the term prudence into the Conceptual Framework. Given the risk of misinterpretation and misapplication, the AASB supports retaining the position in the existing Conceptual Framework of not referring to prudence.

If prudence is to play a part in standard setting, the AASB considers that this should be at the standards level, not in the Conceptual Framework. At a standards level there is less likelihood for there to be a misunderstanding (or different understandings) of the impact of prudence because it is being used in a particular context. In the AASB's outreach, constituents observed that the absence of prudence has not prevented the IASB from developing standards that could be regarded as embedding an element of prudence – with the prime example being the expected loss model (in particular, the 12-month loss allowance when there is no significant increase in credit risk since initial recognition) in the final version of IFRS 9 *Financial Instruments*.

If the IASB feels compelled to incorporate prudence in the Conceptual Framework, the AASB **could accept** the current proposal to reintroduce 'prudence', provided the manner in which it is to apply is clearly articulated in the Conceptual Framework, and is not extended to include asymmetric~~al~~ prudence. The AASB **strongly objects** to asymmetric prudence as a concept being embedded into the Conceptual Framework. In this context, the AASB thinks that it would be important for the Conceptual Framework to articulate that, as prudence supports neutrality, it therefore applies to the measurement of financial information, rather than in the determination of an appropriate accounting policy.

Faithful representation represents substance over legal form

The AASB **agrees** with the proposals to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form. Substance over form remains a key basis on which useful information is included in general purpose financial reports.

Relevance and measurement uncertainty

The AASB **supports** including more guidance on measurement uncertainty within the Conceptual Framework, and agrees that measurement uncertainty is one factor that might make financial information less relevant. However, the AASB considers that a discussion on measurement uncertainty would appear to be better categorised within the fundamental qualitative characteristic of faithful representation rather than within relevance, or ~~is~~ should at least be given greater acknowledgment within faithful representation. The AASB considers that an item may not be able to be recognised because it cannot be faithfully represented when, for example, the measurement uncertainty is extreme (and might also be said to not provide relevant information). If the IASB proceeds with the view that measurement uncertainty is solely part of relevance, it needs to give consideration to explaining, in its Basis for Conclusions, a rationale for not including measurement uncertainty as part of faithful representation.

The AASB notes that as part of the 'trade off', measurement uncertainty may render financial information not relevant for recognition, but still relevant for disclosure; however, this is a standards-level decision. The AASB also considers it important that the discussion on relevance and measurement uncertainty does not imply that high measurement uncertainty means that information is not relevant, and accordingly, need ~~not~~ neither be recognised nor measured. Both of these considerations need to be better clarified in the Conceptual Framework.

Fundamental qualitative characteristics

The AASB **agrees** with the proposal to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information.

The AASB **supports** not reintroducing 'reliability' as a fundamental qualitative characteristic. The AASB has not received any feedback during its outreach that would suggest reliability should be retained. However, the AASB notes that various IFRSs currently refer to 'reliably measured' or 'reliable measurement', and thinks that the IASB should consider reviewing such references as a matter of high priority to ensure the terminology is updated consistent with the transitional period of the amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* proposed in IASB ED/2015/4 (see also our comments on IASB ED/2015/4, included in Appendix B to this submission).

Other comments

The text 'at a minimum' in paragraph 2.16 should be deleted to avoid the impression that these disclosures must all be present for an item to be considered faithfully representative.

Question 2 – Description and boundary of a reporting entity

Do you agree with:

(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and

(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

Description of a reporting entity

The AASB **agrees** that the Conceptual Framework should continue to broadly describe, rather than define, a reporting entity, as the responsibility for determining which entities should apply accounting standards is a matter for individual jurisdictions. The AASB also **agrees** that what constitutes a reporting entity should not be limited to legal entities. Neither should the constituent parts of a reporting entity be limited to legal entities.

The AASB notes that the IASB could potentially make greater use of the reporting entity concept in identifying entities that should prepare general purpose financial statements, as a basis for helping to guide jurisdictional decisions on which entities should report. In Australia, the AASB currently uses the reporting entity concept to help identify those entities that must apply ~~AASB~~ Australian ~~a~~Accounting ~~s~~Standards. Entities that are reporting entities are required to prepare general purpose financial statements in accordance with ~~AASB standards~~Australian Accounting Standards ~~(equivalent to IFRSs)~~. To date the reporting entity decision in Australia has been left largely to the entities themselves, which has given rise to mixed results. However, as a result of feedback received that the reporting entity concept is difficult to apply in practice, the AASB has concluded that it should change the way it uses the concept by instead promoting it for use by Australian policymakers when they determine the entities that should prepare general purpose financial statements.

Description of the boundary of a reporting entity

The proposals discuss the boundaries of a reporting entity using the notions of 'direct control' and 'indirect control'. The AASB has received feedback from constituents that the Chapter is difficult to follow, because 'control' as incorporated herein and applied to the preparation of separate or consolidated financial statements is not immediately consistent with control as understood in IFRS 10 *Consolidated Financial Statements*.

The AASB **agrees** with the proposals to determine the boundary of a reporting entity based on control. However, the AASB is of the view that Conceptual Framework should also clarify:

(a) the perspective from which consolidated financial statements are prepared, as the proprietary perspective and the economic entity perspective can lead to different accounting policies in a range of circumstances including step acquisition accounting, and the classification of liabilities and equity. The AASB thinks this is a fundamental aspect of accounting thought and it would be useful for the Conceptual Framework to clarify the perspective that applies to promote consistency in future standard-setting;

(b) the interaction between the boundary of the reporting entity and other aspects of the Conceptual Framework, including addressing whether (and if not, why not) the distinction between direct and indirect control is consistent with the definitions of an asset; and

(c) whether proportionate consolidation has a place in financial reporting on the basis that it might enable a group to faithfully represent what ~~a group~~it controls.

In relation to (c), the AASB agrees with the sentiments in paragraph BC3.15 that there is no need to embed the notions of joint control and significant influence in the Conceptual Framework. However, the AASB considers that situations often described as being in the nature of joint control can be situations in which an entity has control of an interest in an asset or net assets.

The AASB also considers that care should be taken in the Chapter to ensure control relationships other than parent-subsidiary relationships are not excluded; for example, stapled security arrangements.

Further, the AASB is conscious that there are different views held as to whether equity accounting reflects a measurement method or is a basis of consolidation. Equity accounting is regarded by some as being a one-line consolidation, while others consider it a form of valuation. This has previously led to mixed interpretations as to whether unconsolidated financial statements can include equity accounted amounts, and whether an equity accounted interest should be viewed as a single asset or as an aggregate of assets and liabilities. The AASB notes that the proposals do not contemplate that consolidation (or a one-line consolidation) ~~w~~could occur in the absence of control, which implies that equity accounting can only be a measurement method, including in instances where joint control is present. ~~The proposals also do not discuss whether the reporting entity boundaries could include instances of joint control. As the equity method of accounting is also applied to interests in joint ventures, there continues to remain a lack of clarity as to whether equity accounting is a measurement method or basis for consolidation.~~ The AASB recommends that the IASB clarify its thinking on control relationships in its Basis for Conclusions to the Conceptual Framework, as this thinking may have implications for the Board's decisions on its ~~future~~ Equity Accounting research project~~ on IAS 28 *Investments in Associates and Joint Ventures*~~.

Other comments

Paragraph 3.25 makes the comment that it is necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements. The AASB considers that such a statement is better made at a standards-level, and should not be included as part of the Conceptual Framework.

Question 3 – Definitions of elements
Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity): (a) an asset, and the related definition of an economic resource; (b) a liability; (c) equity; (d) income; and (e) expenses? Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

Definition of an asset

The AASB **agrees** with the proposed definition of an asset and proposed definition of an economic resource.

However, the AASB thinks more care is required when using the term ‘asset’ in the Conceptual Framework as it is used to refer interchangeably as both a right and a bundle of rights. The AASB considers that the Conceptual Framework needs to be clear and consistent ~~in~~when communicating the following aspects throughout the Conceptual Framework:

(a) ~~identifying the~~ acknowledging the asset is conceptually ~~as~~ a single right;

(b) acknowledging that it may be necessary, at a standards-level, in order to provide useful financial information, to reflect a bundle of related rights (~~rather than as a physical form, as this may have unit of account implications~~as ‘the asset’ (the unit of account being represented by a composite asset), which may or may not take a physical form, and to apply recognition and measurement criteria to that cumulative bundle of rights, rather than separately; and

(c) acknowledging that the bundle of rights forming ‘the asset’ may change on the occurrence of an event; the nature and extent of the change resulting in either derecognition of ‘the asset’ or part of ‘the asset’.

~~Also~~In addition, the AASB considers that:

(a) it would be useful for the Conceptual Framework ~~should~~ to provide guidance on whether, and when, the composition of the bundle of rights has changed (for example, after a securitisation, when a sale and leaseback has occurred, or when a component of a physical asset is replaced), including some principles for determining whether ‘the ~~an~~ asset’ has been exchanged in full, or in part, for a different collective bundle of rights. The AASB thinks that ~~this is important, as it may~~developing principles in this regard will assist in evaluating whether ~~profit~~ a gain or loss should be recognised on ~~a transaction~~the occurrence of an event~~.~~;

(b) ~~In addition, the AASB thinks it necessary for~~ the Conceptual Framework ~~to observe~~should acknowledge that the measurement of the collective bundle of rights is not necessarily the sum of the measurement of each individual right held that collectively forms the 'asset'. However, the AASB thinks it is a standards-level assessment as to whether the 'asset' should be recognised (and measured) as a single collective bundle of rights, or that it could be potentially unbundled for recognition (and measurement)~~.~~; and

(c) having regard to the discussion in paragraphs 4.18-4.19 and the IASB's view in paragraph BC3.15 that joint control does not give rise to control, it would be useful for the Conceptual Framework to clearly articulate how an economic resource that is subject to joint control meets the definition of an asset.

Other comments

It would be useful for the discussion in paragraph 4.23 to include principles for determining when an entity is acting as an agent.

Definition of a liability

The AASB's comments to Question 3(b) are included as part of the AASB's response to Question 4 below.

Definition of equity

The AASB **agrees** with the proposal to retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

Definitions of income and expense

The AASB **agrees** with the proposals to retain the existing definitions of income and expense. However, the AASB notes that these definitions refer to holders of equity claims, rather than 'owners', who may not necessarily have an equity interest in the entity.

Question 4 – Present obligation
Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

The AASB has a number of concerns about the definition of a liability, including the proposed guidance on present obligation, and the decision to defer consideration of whether the definition is useful in distinguishing classification between liabilities and equity.

Many participants from the AASB outreach activity on the EDs considered that the proposed amendments are likely to create more issues (for example, issues currently addressed in IAS 32 *Financial Instruments: Presentation* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) than they solve. They noted that the consequences, intended or otherwise, of the proposals beyond their application to certain levies need to be considered by the IASB before it finalises the Conceptual Framework. For example, the proposed definition should be tested using royalties, levies, dividends, examples of constructive and contingent obligations, unequally performed contracts, unavoidable future losses, and against contracts where the entity may have the practical ability to avoid part of an obligation.

Distinguishing classification between liabilities and equity

The AASB considers that the definition of a liability needs to be appropriate to address both claims against the entity, and to assist in distinguishing the classification of transactions as liabilities or as equity. For example, under the proposals, some may consider that future dividends meet the definition of a liability where an entity has had a long-standing practice of paying dividends or there is an announced dividend policy – however, the appropriateness of its classification as a liability versus equity is likely to be considered only as part of the IASB's Financial Instruments with Characteristics of Equity project. The AASB would encourage the IASB to wait to make amendments to the definition of a liability until such time as outcomes of that project are known. If the IASB decides to proceed with its liability definition proposals as part of this phase of the project, the AASB would strongly recommend that the IASB flag its preparedness to further amend the definition in the Conceptual Framework following the completion of its Financial Instruments with Characteristics of Equity project.

Present obligation: no practical ability to avoid the transfer

The AASB agrees that present claims against its economic resources meet the definition of a liability. The AASB does not agree that all future outflows of economic resources arising from incurred obligations which are unavoidable if the entity is to continue operating meet the definition of a present claim, and is concerned that this would be an inadvertent result of the current proposals.

The ED proposes that two criteria must be met before a present obligation is said to exist: 'no practical ability to avoid' the transfer and that there has been a past event. The AASB is concerned that the proposed criteria 'no practical ability to avoid' introduces a notion of economic compulsion into whether or not a liability exists, and unduly broadens the scope of liabilities to include instances of economic dependency by emphasising unavoidable future outflows of economic resources rather than focussing on the existence of a claim against the entity. For example, it appears that provisions for future maintenance of property, plant and equipment used in the period would now meet the definition of a liability, as might the expected future operating losses of a start-up company, as an entity has no practical ability to avoid these future outflows of economic resources if it were to continue operating; however, it is not necessarily also true that an external party has a present claim against the entity in respect of those future expected outflows. The AASB notes that the proposals seek to limit such instances through the proposed guidance on past events, and that others may contend that paragraph 4.39 introduces a rule to scope out such future events as liabilities on the basis that the related benefits have not yet been received. However, the AASB thinks that this guidance is presently insufficient to limit such future cash outflows from meeting the definition of a liability for example, where future maintenance obligations are based on time, rather than equipment use.

The AASB further considers that 'no practical ability to avoid' is subjective in certain instances, for example, when considering obligations to pay additional amounts to a vendor in a business combination based on the achievement of future performance targets. Some entities may argue they have a practical ability to manage whether they choose to meet those targets, such that the application of paragraphs 4.31 and 4.32 do not give rise to a present obligation in such instances. The AASB also thinks that it would be difficult to apply the criterion 'no practical ability to avoid' when different stakeholders (who are all part of 'the entity'; for example, management, directors, and shareholders) may have different perspectives on whether the entity has no practical ability to avoid making a transfer with respect to paying a dividend, or undertaking corporate social responsibility activities.

The AASB is conscious that it would be equally inappropriate to unduly narrow the definition of a liability, and agrees that the liability definition and guidance needs to capture both legal (statutory and contractual) and constructive obligations. In this regard, the AASB considers that it would be useful for guidance to be included in the Conceptual Framework explaining how a constructive obligation gives rise to a present claim against the entity.

~~The AASB also thinks that it would be difficult to apply the criterion ‘no practical ability to avoid’ when different stakeholders (who are all part of ‘the entity’; for example, management, directors, and shareholders) may have different perspectives on whether the entity has no practical ability to avoid making a transfer with respect to paying a dividend, or undertaking corporate social responsibility activities.~~

~~The AASB considers that the Conceptual Framework needs to clearly distinguish identification of a liability from recognition of the liability, and from measurement of the liability. For example, in the case of royalties from using another entity’s intellectual property, it is clear that a liability exists; the real issue is the measurement of the amount of that liability.~~

~~The AASB considers that the definition of a liability needs to be appropriate to address both claims against the entity, and to assist in distinguishing the classification of transactions as liabilities or as equity. For example, under the proposals, the AASB thinks that dividends may meet the definition of a liability where there has been a long-standing practice of paying dividends or there is an announced dividend policy – however, the appropriateness of the classification as a liability versus equity is likely to be considered only as part of the IASB’s Financial Instruments with Characteristics of Equity project. The AASB would encourage the IASB to wait to make amendments to the definition of a liability until such time as outcomes of that project are known. If the IASB decides to proceed with its liability definition proposals as part of this phase of the project, the AASB would strongly recommend that the IASB flag its preparedness to further amend the definition in the Conceptual Framework following the completion of the Financial Instruments with Characteristics of Equity project.~~

Present obligation: past events

The AASB is concerned that the proposed amendments to the definition of a liability, including the description of a present obligation, has been designed to solve concerns about issues addressed in IFRIC 21 *Levies*. However, the AASB thinks that the proposed past event criterion might provide a sufficient basis for addressing the levies issue, without also referencing ‘no practical ability to avoid’. Further guidance could potentially build on the existing notions in the ED that the ‘past event’ is the receipt of benefits or the conduct of activities over time (that is, a series of transactions), rather than an ‘event’ such as a signed contract, enacted legislation or point in time that a certain threshold is triggered.

With respect to past events, the AASB thinks that it is important that the discussion of a past event does not confuse the identification of a liability with measurement of the liability, as the existence of an obligation is separate from the extent of the obligation; that is, whether a present obligation exists as a result of a past event is a yes/no response. The AASB considers that the discussion in the Conceptual Framework needs to clearly distinguish identification of a liability from recognition of the liability, and from measurement of the liability. For example, in the case of royalties from using another entity's intellectual property, it is clear that a liability exists; the real issue is the measurement of the amount of that liability.

Question 5 – Other guidance on the elements
Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

The AASB makes no comment, at this time, on aspects of the guidance on the elements other than as follows:

Unit of account

The AASB thinks that paragraph 4.59, which proposes that it might be appropriate to select different units of account for recognition and measurement, should be deleted from the final proposals. The AASB thinks that the Conceptual Framework should aim to have the same unit of account applied to recognition and measurement, although decisions at a standards-level may differ. ~~[Response to be drafted, and to include comments on unit of account]~~

Question 6 – Recognition criteria
Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

The AASB broadly **agrees** with the approach to recognition set out in paragraph 5.9 of the ED. However, the AASB thinks it needs to be clear that the cost-benefit assessment is not an opportunity for preparers to avoid recognition of an element that is not addressed in an IFRS.

In addition, the AASB is concerned that paragraph 5.9 seems to imply that the recognition of an element is dependent on whether the related other element also meets the criteria for recognition. The AASB thinks that the recognition of an element should be independent of whether the related other element also meets the criteria for recognition (for example, the recognition of an asset should not be restricted to cases when the related income or change in equity provides relevant and faithfully representative information within cost-benefit constraints).

Secondly, and more significantly, the AASB is concerned about the discussion pertaining to the determination of relevant information. The AASB thinks it needs to be clear that the indicators in paragraph 5.13 as to whether information is relevant should not be considered in isolation, but may need to be traded-off against one another. For example, the AASB considers that derivatives which may have a low probability of giving rise to future cash flows should be recognised when the magnitude of the outcome may be material. Further, the AASB does not consider that high measurement uncertainty alone is sufficient to avoid recognition, as this may result in arguments against recognising liabilities such as lawsuits and provisions for rehabilitation.

The AASB is also concerned about the reference to “low probability”. The AASB thinks that this is subjective because it is a relative term, and will be open to interpretation.

Question 7 – Derecognition
Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

The AASB **disagrees** with the proposed discussion of derecognition. The AASB supports a ‘control’ rather than ‘risks and rewards’ approach. While the AASB considers that an assessment of ‘risks and rewards’ is likely to be useful in a ‘control’ approach, the AASB does not think that it should be regarded as a principle in its own right.

The AASB considers that either the derecognition criteria should mirror the recognition criteria or it should be stated that derecognition occurs when the element no longer meets the recognition criteria. Accordingly, the AASB questions whether the Conceptual Framework needs to include guidance on derecognition. If the IASB decides to retain guidance on derecognition in the Conceptual Framework, the AASB thinks that the Conceptual Framework needs to include principles to address the partial derecognition of assets and liabilities. In particular, the AASB considers that the discussion needs to clearly link to the discussion in Chapter 4 about the rights controlled by the entity, and the appropriate unit of account.

Question 8 – Measurement bases **Question 9 – Factors to consider when selecting a measurement basis** **Question 10 – More than one relevant measurement basis**
Has the IASB: (a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why? (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages? Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why? Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

~~The AASB considers the objective of the measurement chapter as proposed is unclear, and notes that it appears to be a description of current practice rather than a conceptual set of principles and guidance.~~

While the AASB considers the Chapter to be an improvement from IASB DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*, at a fundamental level, the AASB **disagrees** with the measurement proposals of the ED. The AASB is concerned that the Chapter appears largely to be a codification of current practice rather than a conceptual set of principles and guidance that is aspirational in nature. An acknowledged gap in the existing *Framework for the Preparation and Presentation of Financial Statements* is the lack of measurement guidance; however, the AASB does not consider this Chapter as having yet progressed the accounting thought in this area to any significant extent, and accordingly, would encourage the IASB to continue its work in this area.

Fundamentally, ~~T~~the AASB considers that the Conceptual Framework should aspire to current value as a single measurement basis, and in its submission on IASB DP/2013/1 dated 11 February 2014 outlined the thinking that would need to underpin the development of a single measurement basis. The AASB acknowledges that, at a standards-level, different measurement bases may be applied for various reasons, including cost constraints. However, the AASB does not support, at a conceptual level, the entrenchment of a mixed measurement approach between the statement of financial position and the statement(s) of financial performance.

~~The AASB does not support a mixed measurement approach. A key problem for users is that different transactions are measured using different measurement bases, giving rise to inconsistent outcomes that are then aggregated into financial statements. The AASB considers that the Conceptual Framework should provide a single measurement basis, and to aim to solve this long-standing problem, even if there seems to be little prospect of short-term success. If the single measurement objective is not set out, standard setters have little prospect of ever achieving greater convergence of measurement bases.~~

The AASB is cognisant of the challenges the IASB faces in developing its measurement proposals, given the global diversity in views in this regard. While the AASB would prefer the measurement proposals to be developed further before being included in a revised Conceptual Framework, if the IASB is not minded to establish a single measurement basis as part of its current project, the AASB would at this time, broadly support the IASB's proposed measurement guidance provided that the content remains sufficiently flexible to allow for future evolution in financial reporting, and subject to our concerns described below. Of key concern to the AASB is the manner in which historical cost has been depicted in the Chapter, and the need for the information value of current value to be given more prominence when considering the selection of a measurement basis. Also importantly~~However~~, the AASB does not support expanding the guidance in the Conceptual Framework with regard to the use of a 'business model' approach at this time, as the AASB considers that further work and consideration in this regard is necessary, including further consultation.

The absence of a clearly stated measurement objective

The AASB considers the objective of the measurement to be applied to elements as proposed is unclear, including which concept of capital and capital maintenance is supported. The AASB thinks a clear statement of the objective of the chapter would be useful in providing principles for guiding future standard-setting; that is, the AASB considers that it is necessary to first identify what the measurement basis should (or at least aim to) achieve, before discussing available alternative measurement bases and providing principles to guide the selection at a Standards-level. Without a frame of reference being articulated, the AASB thinks that the Chapter does not provide sufficient guidance to support consistency in future standard-setting, and may entrench a notion of mixed capital concepts being appropriate.

The AASB acknowledges that such objective may largely repeat the objective of general purpose financial reporting; however, it thinks that this could be usefully articulated at the start of the chapter, as the first link back to the purpose of measurement is otherwise only alluded to in paragraph 6.49 of the ED.

Conceptual clarity in described measurement bases

The ED describes measurement bases as being categorised as either historical cost or current value. The AASB considers that the Conceptual Framework should describe the conceptual rationale underpinning (pure) historical cost measurement and current value measurement, as different jurisdictions may hold strong views as to why only one or other of these are appropriate conceptually. Similarly, the AASB thinks that each measurement basis described should be linked back to the objective of general purpose financial reporting, and the relevance of the measurement basis for both stewardship and the assessment of future cash flows demonstrated. The AASB thinks that it is otherwise inappropriate to include a discussion of the bases in the Conceptual Framework as it considers that this may perpetuate the use of measurement bases that do not improve financial reporting.

Historical cost

The AASB strongly disagrees with the historical cost discussion included within the Chapter, and does not consider the measurement bases discussed to be appropriately categorised as reflecting historical cost, as their result may have no clear relationship to the original cost of the asset or liability. The AASB is concerned that 'pure' historical cost is not discussed; rather, the discussion predominantly focuses on adjusted historical cost measures and codifies the use of amortised cost. The AASB disagrees that amortised cost is the same measure as historical cost, and accordingly, objects to paragraph 6.9 which portrays the relationship as such. The AASB considers amortised cost to be a mixed measurement approach that conceptually reflects neither a true current value nor pure historical cost measurement, as cash flows but not discount rates may be updated; however, is probably more aligned with current value measurement. Similarly, the AASB notes that paragraphs 6.6 and 6.7 of the ED discuss impairment in the context of historical cost. Impairment updates an asset's historical cost for the impact of some current information, however, this is not acknowledged as such by the ED's proposals.

The AASB particularly objects to the discussion in paragraph 6.18 of the ED ~~(under the 'historical cost' heading)~~ of current cost. The AASB thinks this would add to the confusion about the nature of different entry prices and their use under different measurement models. It would be less confusing to discuss current cost under the 'current value' heading.

Factors to consider in selecting a measurement basis

The AASB broadly agrees that the qualitative characteristics underpinning useful financial information should be considered as part of the selection of the measurement basis. However, the AASB does not think that the factors identified provide sufficient guidance to the IASB in guiding consistent future decision-making, without first identifying a measurement objective. The AASB also thinks the Chapter needs to acknowledge measurement uncertainty as part of faithful representation, and to communicate also that high measurement uncertainty does not mean a particular measurement basis should not be selected (see also our comments to Question 1(d)).

The AASB thinks that the selection of the measurement basis should be linked back to the information that is useful to meet the objectives of general purpose financial reporting. The AASB is significantly concerned that the Chapter is predisposed towards the selection of measurement bases based on historical cost, having regard to the emphasis in the Chapter on the entity's business activities and on measurement uncertainty. Accordingly, the AASB would encourage that the discussion in paragraphs 6.30 and 6.54-6.56 of the Chapter be expanded to include also discussion of the information value of current value measures, which arguably provides more relevant information for informing of future cash flows and stewardship. The AASB notes that modified historical cost measures are not less subject to measurement uncertainty, as such measures are similarly subject to judgements about rates of consumption and impairment assessments (consistent with the view expressed by Hans Hoogervost in his speech *Historical cost versus fair value measurement: les extrêmes se rejoignent* that "…historical cost is not free from subjective updating requirements…").

Other comments

The AASB has the following other observations about the Chapter:

- The AASB questions the place of Appendix A *Cash-flow-based measurement techniques* in a Conceptual Framework. While the AASB agrees that Appendix A sets out useful information, the AASB considers that this information is better communicated in a different document. The AASB also notes that it considers that the customised measurement contemplated in paragraph A5 would not reflect the asset or liability's current value, and that it thinks customisation should not be contemplated by a Conceptual Framework (see also paragraph 6.35 of the ED);

- The discussion in the Chapter should be made consistent with Chapter 4. For example, paragraph 6.7 discusses the measurement of non-financial assets; in this paragraph, the asset in question is the cumulative bundle of related rights, but this is not acknowledged as such;

- The AASB thinks it needs to be clear that the cost-benefit assessment of an appropriate measurement basis is a matter for evaluation by the standard-setter, and not the preparer;

- The AASB disagrees with the IASB's rationale for not including a discussion on current cost and deprival value;

- The last sentence of paragraph 6.2 is inconsistent with the subsequent discussion in paragraphs 6.74-6.77;

- Paragraph 6.10 is not specific to historical cost measurement, however, this is not acknowledged;

- Paragraph 6.11 discuss instances of no exchange; it would be useful for instances of unequal exchange to also be discussed;

- Paragraph 6.3 would be better included in the Basis for Conclusions, and expressed as acknowledging the Standards-level measurement decisions may differ from an aspirational measurement objective. The AASB also notes that paragraph BC6.13 appears to be expressing support for historical cost measurement;

- Paragraph 6.30 should be softened to avoid creating a presumption that fair value is not relevant where the business activities of the entity do not involve selling the asset or transferring the liability. The AASB notes that in Australia, many public sector entities measure assets that are not held for sale at fair value, as fair value is to provide more relevant information about the asset. Further, land and/or buildings are commonly measured at fair value regardless of the business' activity; and

- Paragraph 6.52 implies that the initial and subsequent measurement basis must be determined consistently in order to avoid giving rise to Day 1 gains and losses. However, this is not always the case, for example, a donated non-financial asset may be recognised at its fair value on initial acquisition as part of a business combination, but thereafter at depreciated historical cost.

Question 11 – Objective and scope of financial statements and communication

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

~~[Response to be drafted]~~No comments.

Question 12—Description of the statement of profit or loss

Question 13 – Reporting items of income or expenses in other comprehensive income

Question 14 – Recycling

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

The AASB **does not support** the ED's proposals relating to information about financial performance (paragraphs 7.19-7.27). The AASB agrees with the view expressed in paragraph AV2 that the proposals "… represent a missed opportunity to identify a conceptual basis for the use of OCI, with the IASB effectively being in no better position than it is now in determining how it should be used."

The AASB ~~supports~~ does not disagree with the proposed description of the statement of profit or loss in paragraph 7.20, but considers the description to apply equally to OCI. Participants in the AASB outreach generally agreed that, in a framework that draws a distinction between profit or loss and OCI, it is a major inadequacy for neither of those terms to be defined. The AASB considers that the Conceptual Framework needs to first address what profit or loss is intended to represent and to be able to define profit, before making decisions on the use of OCI, including when items might be recycled (or whether recycling is an appropriate concept in reporting performance). ~~Participants in the AASB outreach generally agreed that, in a framework that draws a distinction between profit or loss and OCI, it is a major inadequacy for neither of those terms to be defined.~~ This is because profit, and not OCI, is generally regarded as the driver of financial performance.

Fundamentally, the AASB considers that there should be only one income statement. The AASB considers that while profit or loss or OCI may be a useful disaggregation tool for application at a standards-level, it is not a principle that should be included in a Conceptual Framework. By building a profit or loss/OCI distinction into the Conceptual Framework, the IASB is potentially constraining its ability to develop better, more useful, disaggregations within the income statement. The AASB thinks that the disaggregation could potentially be managed through the use of better labelling or subheadings, similar to an approach the AASB understands the IASB is currently considering in its Principles of Disclosure project with respect to non-IFRS information. Accordingly, the AASB considers that the Conceptual Framework does not need to include a discussion on other comprehensive income, and that recycling is inappropriate.

As the IASB has yet to define profit, it also appears inappropriate for the Conceptual Framework to include a discussion on OCI (setting OCI up as a 'concept'), as the definition of profit may encapsulate OCI.

However, the AASB is cognisant of the challenges the IASB faces in developing its proposals in this regard, given the global diversity in views as to the nature and use of other comprehensive income, and the recycling of OCI amounts into profit or loss. Accordingly, while the AASB's preference is for the proposals to be developed further before being included in a revised Conceptual Framework, if the IASB were to proceed with incorporating OCI in a revised Conceptual Framework, the AASB could broadly support the proposed guidance provided that the content remains sufficiently flexible to allow for future evolution in financial reporting, including any outcomes from the IASB's current Primary Financial Statements project. In this instance, the AASB would support the presumption that all OCI amounts should be recycled into profit or loss.

The AASB is aware that some of the IASB's constituents propose that the Conceptual Framework should reference the use of the business model to distinguish between when income and expenses are presented in the statement of profit or loss versus OCI because the proposals relating to the business' activity may dictate its choice of measurement basis. The AASB does not support expanding the guidance in the Conceptual Framework in this regard at this time, as the AASB considers that further work and consideration on the use of a 'business model' approach is necessary, including being subject to adequate due process.

The AASB would strongly encourage the IASB to undertake further work in the area of financial performance, and not lock into the Conceptual Framework notions that could be a barrier to progress.

Question 15 – Effects of the proposed changes to the Conceptual Framework
Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

~~[Response to be drafted]~~ The AASB's comments pertaining to paragraphs BCE.12-BCE.13 (quotes of existing definitions) and BCE.17-BCE.21 (faithful representation vs reliability, IAS 1 and IAS 8) are included in Appendix B as part of its response to ED/2015/4.

Question 16 – Business activities
Do you agree with the proposed approach to business activities? Why or why not?

~~[Response to be drafted]~~The AASB broadly agrees with the proposed approach to business activities taken in the ED. The AASB considers the way by which an entity conducts its business activities to be a factor in the standard-setting process as it contributes to developing Accounting Standards that reflect economic reality; however, notes that this is not the only factor. The AASB **does not support** the role of the business model being further extended in the Conceptual Framework as part of the current Conceptual Framework project.

Question 17 – Long-term investment
Do you agree with the IASB's conclusions on long-term investment? Why or why not?

~~[Response to be drafted, and to include comments pertaining to the maintenance of operating capacity]~~The AASB broadly supports the IASB's proposals to not include any specific mention of long-term investment, and not to presently identify long-term investment as a business activity. However, the AASB is concerned that the discussion in paragraph BCIN.36-BCIN.37 indicates implicit support by the IASB for accounting for long-term investments at other than current value. Consistent with our comments to Questions 8-10, the AASB notes that it does not share the views expressed in paragraph BCIN.36 that current value is not an appropriate measurement basis for long-term investments nor that any current value remeasurement is recognised in other comprehensive income. The AASB considers that current value may also be an appropriate measurement basis as it also provides relevant information for assets held for use, especially where an operating capability concept of capital and capital maintenance is adopted. The AASB recommends that the commentator views in paragraph BCIN.36 be deleted.

Question 18 – Other comments
Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

~~[Response to be drafted]~~ We do not have comments on other aspects of the ED at this time, other than as follows:

Distinguishing liabilities from equity claims

As noted in our response to Question 4, the AASB considers that developing principles for distinguishing liabilities from equity claims forms part of developing the definition of a liability (and present obligation). Accordingly, the AASB supports not revising the definition of a liability until the IASB's Financial Instruments with Characteristics of Equity project is completed.

Concepts of capital and capital maintenance

The AASB notes that the IASB is not proposing to make any significant amendment to the content of the existing discussion pertaining to concepts of capital and capital maintenance. While the AASB thinks it would be preferable if the Conceptual Framework supported only one concept of capital and capital maintenance, given the proposals in other Chapters, the AASB could support the IASB's approach. However, the AASB thinks that the concepts of capital and capital maintenance needs to at least be acknowledged in other Chapters of Conceptual Framework, given the implications of different concepts of capital for measurement and presentation and disclosure. In addition, the AASB would encourage the IASB to extend paragraph BCIN.24 in its Basis for Conclusions to the Conceptual Framework to include an explanation as to why the IASB has not further developed proposals in this regard. Further, the AASB thinks that identifying an ideal concept of capital and capital maintenance is independent of a complementary discussion of current cost.

APPENDIX B: AASB comments on IASB ED/2015/4 *Updating Reference to the Conceptual Framework*

Question 1—Replacing references to the Conceptual Framework
The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective. Do you agree with the proposed amendments? Why or why not?

~~[Response to be drafted]~~The AASB **agrees** with the proposal to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 to refer to the revised Conceptual Framework, subject to the following comments.

The AASB considers:

(a) the footnote to the definition of an equity instrument in IFRS 2 to be unnecessary; and accordingly, would also support deleting the footnote;

(b) that the second sentence of paragraph 10 of IFRS 6 creates confusion, as these assets are scoped out of IAS 38 and as the Conceptual Framework does not specifically address the recognition of assets arising from development activity; and accordingly, would also support deleting the sentence;

(c) the second sentence of paragraph 15 of IAS 1 should be amended to acknowledge the departure in certain IFRSs from the definitions and recognition criteria in the Conceptual Framework; for example, IAS 37; and

(d) that it may not be necessary to amend SIC-27, should the effective date of a new Leasing IFRS be the same or before the effective date of these amendments;

In addition, the AASB notes that paragraphs BCE.19-BCE.21 of ED/2015/3 acknowledges the linkages between the Conceptual Framework, IAS 1 and IAS 8, and that the IASB will consider whether to develop proposals to amend IAS 1 and IAS 8 to reflect the revised Conceptual Framework following its finalisation. The AASB **strongly recommends** that the IASB reviews and amends these (and any other) IFRSs for consistency with the revised Conceptual Framework before the effective date of the amendments proposed in ED/2015/4; for example, to update concepts to reference ‘relevant and faithfully representative information’ from existing references to ‘relevant and reliable information’ and, where appropriate, to replace references to ‘reliability’.

Question 2—Effective date and transition
The IASB proposes that: (a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted. (b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations. Do you agree with the proposed transition provisions and effective date? Why or why not?

~~[Response to be drafted]~~The AASB **agrees** with the proposed transitional provisions and effective dates. However, the AASB would encourage the IASB to consider the timing of any likely further amendments to IAS 1 and IAS 8 (as noted in Question 1 above), including any expected amendments arising out of the Disclosure Initiative: Materiality Practice Statement project, when setting the effective date, to limit a piecemeal incorporation of the revised concepts into IFRSs. The AASB supports guidance on materiality being made consistent between the Conceptual Framework, IAS 1 and IAS 8.

Question 3—Other comments
Do you have any other comments on the proposals?

~~[Response to be drafted]~~The AASB notes that the IASB does not propose to amend IAS 37 and IAS 38 to reflect the revised definitions of a liability and an asset (refer paragraphs BC5-BC6 of ED/2015/4 and BCE.12-BCE.13 of ED/2015/3). The AASB supports not automatically amending IFRSs to address inconsistencies with the revised Conceptual Framework; however, the AASB would prefer for terms to be defined consistently within the suite of IFRSs. Accordingly, the AASB would support these defined terms being amended on revision of the Conceptual Framework, to the extent the amendments do not have any practical implications (as noted in paragraph BC6).