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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 a 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 the IASB's redeliberations, the AASB encourages the IASB to consider the purpose and role of a conceptual framework in the IASB's decision-making on this project. The AASB considers 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. In contrast to paragraph BCIN.18, the AASB considers the conceptual framework's role is to provide a conceptual basis for setting standards and notes that establishing well-crafted concepts is not a simple exercise.

In redeliberating the project, the AASB encourages the IASB to take as much time as is necessary to evaluate and enhance the proposals so that the final pronouncement reflects a satisfactory improvement over the current conceptual framework. However, the AASB acknowledges the importance of the project, and the need for a revised Conceptual Framework. 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 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, 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 income statement presentation, the AASB is strongly of the view that the IASB should include only limited guidance in those sections. Furthermore, the IASB should commit 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 and rules 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 on the conceptual framework is necessary. The AASB would also strongly encourage the IASB to amend, where appropriate, the Conceptual Framework following the outcomes of the IASB's projects on the Disclosure Initiative and Financial Instruments with Characteristics of Equity. The AASB recommends that the IASB should regard its Conceptual Framework as a living document, and thus should commit to reviewing and updating it from time to time in light of subsequent developments in financial reporting. The timing of such reviews should reflect the IASB's resources and priorities, and developments in conceptual thinking.

The AASB has focussed its consideration of the proposals to the following aspects, which the AASB consider to be areas of key concern:

(a) measurement. The AASB considers the Chapter to be largely a codification of current practice rather than providing a conceptual set of principles and guidance. Accordingly, the AASB thinks the measurement Chapter will not lead to improved financial reporting. Further, the AASB thinks the drafting of the Chapter should not imply a preference for a particular measurement basis;

(b) use of other comprehensive income versus the profit or loss. The AASB thinks the use of other comprehensive income should not be embedded into a Conceptual Framework, at least not before the IASB has been able to define profit. Doing so entrenches practice before understanding whether there is any conceptual basis to that practice; and

(c) liability definition. The AASB has two significant concerns; firstly, that the IASB proposes to finalise the definition before concluding its consideration of whether the definition is appropriate in classifying transactions between liabilities and equity. The AASB thinks it would be preferable for the IASB not to make changes to the liability definition until this other work is complete. Secondly, the AASB is concerned that the 'no practical ability to avoid' criterion in the present obligation discussion introduces a notion of economic compulsion, and may inadvertently broaden the scope of items captured as liabilities.

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

K. E. Peach

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 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 observes that prudence has been reflected in the proposals as having the same meaning as neutrality or being consistent with neutrality. The AASB does not regard prudence as having the same meaning as neutrality or being consistent with neutrality.

The AASB is concerned 'prudence' will be interpreted and applied differently not only in different jurisdictions, but to different degrees by different groups (such as users, compared with preparers). The AASB has received feedback through its outreach activity on the EDs that 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 prudence. The AASB **strongly objects** to asymmetric prudence as a concept being embedded into the Conceptual Framework. In this context, the AASB thinks it would be important for the Conceptual Framework to articulate that, because prudence should support 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 of measurement uncertainty would appear to be better categorised within the fundamental qualitative characteristic of faithful representation rather than within relevance, or 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). The AASB thinks it would be useful for the Conceptual Framework to clarify the interaction between relevance and faithfully representative information in this regard. If the IASB proceeds with the view that measurement uncertainty is solely part of relevance, the IASB needs to give consideration to explaining, in the IASB's Basis for Conclusions, a rationale for not including measurement uncertainty as part of faithful representation.

The AASB notes as part of the 'trade off' in determining relevant information, and taking into account cost considerations, measurement uncertainty may render financial information not relevant for recognition (for example, to avoid giving the impression that measurement is precise when it falls within a very broad range), but still relevant for disclosure; however, this is a standards-level decision. The AASB also considers it important that the discussion of relevance and measurement uncertainty does not imply that high measurement uncertainty means information is not relevant (and accordingly, is not recognised or measured). Both of these matters need to be 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

Paragraph 2.16 could be reworded to read "… For example, a complete depiction of a group of assets would ordinarily include~~, at a minimum,~~ a description of the nature of the assets in the group, a numerical depiction of all the assets in the group, and a description of what the numerical depiction represents …" (new text is underlined and deleted text is struck through). This would be consistent with the IASB's recent decisions in respect of IAS 1.

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** 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 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 Australian Accounting Standards. Entities that are reporting entities are required to prepare general purpose financial statements in accordance with Australian Accounting Standards. 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 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 received feedback from constituents that the Chapter is difficult to follow, because 'control' as discussed in Chapter 3 of the ED and applied to the preparation of unconsolidated 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. The AASB notes that paragraph 3.9 implies IASB support for the economic entity perspective;

(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 definition of an asset (in particular, the discussion on the concept of control in paragraphs 4.17 – 4.23); and

(c) whether proportionate consolidation has a place in financial reporting on the basis that it might enable a group to faithfully represent what 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 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 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 proposals do not contemplate that consolidation could occur in the absence of control, which implies that equity accounting can only be a measurement method. The AASB recommends the IASB's thinking on control relationships be clarified in the IASB's Basis for Conclusions to the Conceptual Framework, as this thinking may have implications for the IASB's decisions on the IASB's Equity Accounting research project.

<u>Other comments</u>

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. The AASB thinks it would be more useful for the Conceptual Framework to clarify whether unconsolidated financial statements are considered to be extracts of the consolidated financial statements, or whether they are regarded as serving the objective of general purpose financial reporting in their own right.

If the sentence is retained, to avoid making standards-level statements, the paragraph could be reworded as follows: "… To enable users to receive the information they need about all the economic resources the parent controls, both directly and indirectly, and about claims against both the parent and its subsidiaries, it ~~is~~ <u>may be</u> necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements <u>to faithfully represent the information in the unconsolidated financial statements</u>" (new text is underlined and deleted text is struck through). Note, however, as mentioned above, the AASB considers that control relationships can exist without there being a parent.

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 when communicating the following aspects throughout the document by acknowledging:

(a) the asset can be conceptually a single right or inseparable related rights;

(b) that it may be necessary, at a standards-level, in order to provide useful financial information, to reflect a bundle of related rights 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 to the rights separately; and

(c) 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'.

In addition, the AASB considers that:

(a) it would be useful for the Conceptual Framework 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 asset' has been exchanged in full, or in part, for a different collective bundle of rights. The AASB thinks that developing principles in this regard will assist in evaluating whether a gain or loss should be recognised on the occurrence of an event;

(b) the Conceptual Framework 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.

<u>Other comment</u>

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 agrees with the alternative views in paragraphs AV8-AV13. The AASB considers that the Conceptual Framework project should address the use of the liability definition to distinguish between liabilities and equity, or at least not change the liability definition until such time as the Financial Instruments with Characteristics of Equity project is complete. The AASB's further 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.

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 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, as the IASB has decided not to address the liability/equity distinction as part of the current proposals, the appropriateness of the dividend's 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 the liability definition proposals as part of this phase of the project, the AASB would strongly recommend that the IASB flag the IASB's preparedness to further amend the definition in the Conceptual Framework following the completion of the IASB's Financial Instruments with Characteristics of Equity project.

Present obligation

The AASB considers that it would be preferable for the Conceptual Framework to discuss the characteristics of a present obligation, rather than finalising the criteria as proposed. The AASB's concerns about the criteria are described below.

In addition, the AASB notes that some jurisdictions consider the criterion 'no practical ability to avoid the transfer' reflects 'asymmetric' prudence in the Conceptual Framework, when comparing the definition of an asset and liability. The AASB thinks that this perception would be resolved if the criterion were to be removed and replaced with discussion of the characteristics of a present obligation.

No practical ability to avoid the transfer

The AASB agrees that present claims (such as licence royalties relating to past use) against an entity's 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 the entity has no practicable ability to avoid if it is to continue operating (such as future asset maintenance obligations arising from the asset's use to date) give rise to present claims. However, the AASB sees this as an inadvertent result of the current proposals. Further, the AASB considers it should be clarified that management's intention to make the transfer, or that the transfer is probable, is not sufficient by itself to establish a present obligation.

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 the 'no practical ability to avoid' criterion introduces a notion of economic compulsion. This would unduly broaden 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, because 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 the proposals seek to limit such instances through the proposed guidance on past events, and 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 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.

Additionally, the AASB considers that the criterion 'no practical ability to avoid':

(a) 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 does not give rise to a present obligation in such instances. The AASB thinks there is a present obligation in such circumstances; the entity's ability to control the performance outcome is reflected in the measurement of the liability; and

(b) would be difficult to apply 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, for example, with respect to paying a dividend, or undertaking corporate social responsibility activities.

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*. Despite this, the AASB thinks the proposed past event criterion might provide a sufficient basis for addressing aspects of 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 demonstrated by the receipt of benefits or the conduct of activities over time (that is, a series of transactions) in addition to an 'event' such as a specific signed contract, enacted legislation or date that a certain threshold is triggered, or where it is not clear that an 'event' has taken place.

With respect to past events, the AASB also thinks it is important that the discussion of a past event in paragraphs 4.36 and 4.37 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 certain royalties from using another entity's intellectual property, it is clear a liability exists; the real issue is the measurement of the amount of that liability.

Constructive obligations

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 other enforceable obligations. In this regard, the

AASB considers that it would be useful for obligations other than legal obligations to be given more prominence in the liability definition and related discussion, and for guidance to be included in the Conceptual Framework explaining how these obligations give rise to present claims against the entity.

The AASB considers some enforceable obligations arise because of the valid expectation created in others as a result of an entity's customary practices, published policies or specific statements that require the transfer of an economic resource, such that the obligation is regarded as enforceable (for example, certain annual 'bonus' payments). However, the AASB does not consider a non-contractual transfer that would be required only on liquidation of the entity or on the cessation of trading to be an enforceable obligation of an entity preparing financial statements on a going concern basis.

Executory contracts

The AASB thinks it would be useful for the discussion on executory contracts in paragraph 4.39 to be extended to clarify that the performance of the other party to the contract establishes the other party's claim and, accordingly, whether a present obligation exists. Further, the AASB thinks it would be useful for the Conceptual Framework to extend the discussion in paragraph 4.42 of unequally performed contracts (such as long service leave) to also explain that a present claim arises when the other party performs services as the entity cannot then unilaterally cancel the partly performed contract and avoid the obligation. It may also be useful to note that the measurement of the present claim may be informed by expectations of the other party's future actions.

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.

Unit of account

The AASB acknowledges further guidance on 'unit of account' will necessarily be required at a standards-level, however, that guidance should be developed from concepts. Accordingly, the AASB thinks it would useful for the Conceptual Framework to include principles for identifying an appropriate unit of account.

With respect to the current proposals, the AASB disagrees with paragraph 4.58, which states the unit of account is selected after considering how recognition and measurement apply. The AASB considers the selection of the unit of account, representing the element, must logically precede any recognition and measurement decision. The AASB also thinks 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 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 for cost-benefit reasons.

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.

More significantly, the AASB is concerned about the discussion pertaining to the determination of relevant information. The AASB thinks the Conceptual Framework 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. Further, it may be useful for paragraphs 5.17 – 5.19 to include discussion that the potential magnitude of the outcome should be considered when assessing the recognition of an asset or liability with a low probability of future inflow or outflow of economic benefits. 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.

The AASB does not consider that high measurement uncertainty alone is sufficient to avoid recognition, because this may result in arguments against recognising liabilities such as provisions for rehabilitation or lawsuits.

In addition, the AASB is concerned about the reference to “low probability”. The AASB thinks this is subjective because it is a relative term, and will be open to interpretation. However, the AASB thinks the probability criterion should be retained in the Conceptual Framework.

<u>Other comment</u>

The AASB thinks the drafting of paragraph 5.9 could be clarified so that it does not imply that the recognition of an element is dependent on whether the related other element also meets the criteria for recognition.

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 the Conceptual Framework needs to include principles to address the partial derecognition of assets and liabilities. In particular, the AASB considers 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?

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 the Chapter appears largely to be a codification of current practice rather than a 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 progresses accounting thought in this area to any significant extent, and accordingly, would encourage the IASB to continue its work in this area.

Fundamentally, the AASB considers the Conceptual Framework should aspire to current value as a single measurement basis, and in the AASB submission on IASB DP/2013/1 dated 11 February 2014 outlined the thinking that would 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 and within the statement of financial position and the statement(s) of financial performance.

The AASB is cognisant of the challenges the IASB faces in developing measurement proposals, given the global diversity in views in this regard. While the AASB would prefer the measurement proposals 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 the IASB's 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. Equally important, 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 (see also our response to Question 16).

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 measurement in the Chapter would be useful in providing principles for guiding future standard-setting. That is, the AASB considers it is necessary to first identify what the measurement basis should (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 inappropriately entrench a notion of mixed capital concepts.

The AASB acknowledges that the measurement objective may largely repeat the objective of general purpose financial reporting; however, the AASB thinks that this could be usefully articulated at the start of the chapter. Otherwise, the first link back to the purpose of measurement is 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 disagrees with the categorisation of the various measurement bases discussed as historical cost.

Further, 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 that the relevance of the measurement basis for both stewardship and the assessment of future cash flows should be demonstrated. The AASB thinks that without this link it is otherwise inappropriate to include a discussion of the bases in the Conceptual Framework because it considers that this may perpetuate the use of measurement bases that do not lead to improved financial reporting.

Historical cost

The AASB strongly disagrees with the discussion of historical cost included within the Chapter. The AASB is concerned that ‘pure’ historical cost is not discussed, and disagrees with modified historical cost measures being categorised as historical cost. Modified historical cost measures may have no clear relationship to the original cost of the asset or liability.

The AASB notes that the discussion in the Chapter under the heading ‘historical cost’ predominantly focuses on ‘modified historical cost’ measures of depreciated historical cost (including impairment) and amortised cost (including impairment). The AASB disagrees that amortised cost is the same measure as historical cost, and accordingly, objects to paragraph 6.9 which represents them as being the same. The AASB thinks that amortised cost measurement should not be incorporated into a Conceptual Framework as it considers amortised cost to be a mixed measurement approach that conceptually reflects neither a true current value nor a pure historical cost measurement. Further, on balance, amortised cost, when combined with impairment, may be more aligned with a current value measure than with original historical cost.

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 in the ED.

The AASB particularly objects to the discussion in paragraph 6.18 of the ED about 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 the factors identified provide sufficient guidance to the IASB to achieve 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 that high measurement uncertainty or uncertainty about the soundness of a valuation does not mean a particular measurement basis should not be selected (see also our comments to Question 1(d)).

The AASB thinks 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 seriously concerned that the Chapter is predisposed towards the selection of measurement bases based on historical cost, because of the emphasis in the Chapter on an entity's business activities and on measurement uncertainty. Accordingly, the AASB would encourage expanding the discussion in paragraphs 6.30 and 6.54-6.56 of the Chapter to include discussion of the information value of current value measures, which arguably provide more relevant information about future cash flows and stewardship. The AASB notes that modified historical cost measures are as subject to measurement uncertainty as current value measures, because 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 considers that the customised measurement contemplated in paragraph A5 would not reflect the asset or liability's current value, and that 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 the Conceptual Framework 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. That is, it should be clear that the Conceptual Framework does not allow a preparer to "override" the measurement basis specified by an IFRS;
- 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 briefly discusses instances of no exchange. The AASB recommends against introducing 'no exchange', or similar terminology such as 'non-reciprocal', into a Conceptual Framework, especially given the possibility of the IASB extending its remit to include private sector not-for-profit entities. The AASB considers the distinction to be unhelpful when considering the application of IFRS to not-for-profit entities, and notes that it may inadvertently limit options available to the IASB in the future. The AASB supports deleting this paragraph from the final Conceptual Framework;
- 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. Further, the AASB thinks that paragraph BC6.13 reflects standards-level considerations, and should be deleted from the final Conceptual Framework;
- 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, because fair value provides relevant information about the asset. Further, it is not uncommon for private sector entities to measure land and/or buildings at fair value; and
- Paragraph 6.52 implies that the initial and subsequent measurement basis must be the same 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?

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 agrees with the alternative views set out in paragraph AV3. 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 the IASB's ability to develop better, more useful, disaggregations within the income statement. The AASB thinks 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 the IASB's Principles of Disclosure project with respect to non-IFRS information. Accordingly, consistent with the AASB's view that there should be only one income statement, the AASB considers the Conceptual Framework does not need to include a discussion on other comprehensive income, and that recycling is inappropriate.

Based on our outreach responses, if the IASB continues to include the concepts of profit or loss and OCI, the AASB considers the Conceptual Framework needs to first address what profit or loss is intended to represent and 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 financial performance). This is because profit, and not OCI, is generally regarded as the driver of financial performance. The AASB thinks 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 inadequacy was a key concern of participants in the AASB's outreach.

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 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 <u>provided</u> 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. Only in this instance would the AASB support the presumption that all OCI amounts should be recycled into profit or loss when it enhances the relevance of the information included in the statement of profit or loss for that future period (however, as noted above, the AASB fundamentally disagrees with recycling). If the Conceptual Framework incorporates recycling, the AASB thinks it would be useful to include principles on when recycling enhances the relevance of profit or loss by demonstrating how and when recycling improves the predictive or confirmatory value of 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 entity's 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 businesses' activity may dictate the choice of measurement basis. The AASB does not support expanding the guidance in the Conceptual Framework in this regard at this time, because the AASB considers that further work and consideration on the use of a 'business model' approach is necessary, including the use of the approach being subject to adequate due process.

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

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?

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 the AASB's response to ED/2015/4.

Question 16 – Business activities

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

The AASB broadly agrees with the proposed approach to business activities taken in the ED. The AASB considers the way in which an entity conducts its business activities to be a relevant factor needing to be taken into account in the standard-setting process because considering this contributes to developing accounting standards that reflect economic reality. However, the AASB 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, because it considers that this would give business activities undue prominence in the standard-setting decision making process before the notion has been properly explored and subjected to due process. For example, some may argue that historical cost measurement of property provides the most relevant information for users of entities that are not in the business of property trading, as users will not be interested in short-term fluctuations in the value of the property. However, others may argue that fair value provides more relevant information for such property as the modified depreciation expense better informs users of the true economic cost of holding that asset.

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

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 recommends a change to the manner in which the issue is discussed, which currently seems biased against current value. 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. Accordingly, the AASB recommends that the commentator views in paragraph BCIN.36 be deleted.

The AASB considers that current value can also be an appropriate measurement basis because it provides relevant information for assets held for use, especially where an operating capability concept of capital and capital maintenance is adopted.

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.

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), and accordingly, would support not revising the definition of a liability at this time.

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. The AASB thinks it would be preferable if the Conceptual Framework supported only one concept of capital and capital maintenance. If, despite this, the IASB is not minded to significantly amend the proposals in other Chapters pertaining to measurement and presentation and disclosure, the AASB could at this time support the IASB's approach to concepts of capital and capital maintenance. However, the AASB thinks that the concepts of capital and capital maintenance need to at least be acknowledged in other Chapters of the 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 the IASB's Basis for Conclusions to the Conceptual Framework to include an explanation as to why the IASB has not further developed proposals about capital maintenance. Further, the AASB thinks that identifying an ideal concept of capital and capital maintenance is independent of a complementary discussion of current cost.

Primary users

The AASB notes the need for consistency between the 'primary users' identified in the Conceptual Framework proposals and the Disclosure Initiative project. The AASB does not support further narrowing the user groups identified in the Conceptual Framework; nor necessarily support broadening the users for whom general purpose financial reports are prepared. The AASB thinks that any proposal to amend the primary user group should be subject to appropriate due process.

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?

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 finalisation of the project. 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?

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?

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. The AASB is concerned that having different definitions could, for example, result in obligations meeting the <u>definition</u> of a liability when a business combination occurs, compared to instances where an obligation is held by the entity and accounted for in accordance with IAS 37. The AASB views this situation as different from the existing requirements in IFRS 3 which require different <u>recognition</u> criteria to be applied to contingent liabilities arising in a business combination. 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).