AASB Exposure Draft **ED 265**

June 2015

Updating References to the Conceptual Framework

(Proposed amendments to AASB 2, AASB 3, AASB 4, AASB 6, AASB 101, AASB 108, AASB 134, Interpretation 127 and Interpretation 132)

Comments to the AASB by 5 October 2015

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 5 October 2015. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 26 October 2015. Comments should be addressed to:

The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Submissions are to be lodged with the AASB via the 'Submit comments to AASB' button for the proposal document on the 'Work in progress – open for comment' page of the AASB website (www.aasb.gov.au). Please lodge your submission as a PDF document. The AASB prefers that a Word document also be lodged, for internal use only.

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

Enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au

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AASB REQUEST FOR COMMENTS

This Exposure Draft is issued in conjunction with Exposure Draft 264 *Conceptual Framework for Financial Reporting* and incorporates the International Accounting Standards Board's (IASB) proposals to update references and quotes in International Financial Reporting Standards (IFRSs) to refer to the proposed revised IASB *Conceptual Framework for Financial Reporting*. The Exposure Draft also proposes the removal from IFRSs of various footnotes that refer to previous amendments to the conceptual framework.

The Exposure Draft proposes a transition period of approximately 18 months, with early application permitted. Under the proposals, the amendments are to be applied retrospectively, except for the proposed amendments to IFRS 3 *Business Combinations*, which are to be applied prospectively, thereby avoiding the need to restate previous business combinations.

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 5 October 2015. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already otherwise provided in your response, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is

particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

May 2015

Exposure Draft ED/2015/4

Updating References to the Conceptual Framework

Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32

Comments to be received by 26 October 2015

IASB®

IFRS®

Updating References to the Conceptual Framework

(Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)

Comments to be received by 26 October 2015

Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **26 October 2015** and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Comment on a proposal' page.

All comments will be on the public record and posted on our website unless the respondent requests confidentiality. Please see our website for details on this and how we use your personal data.

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Introduction

In its separate Exposure Draft, *Conceptual Framework for Financial Reporting*, published at the same time as this Exposure Draft, the International Accounting Standards Board (IASB) sets out the proposals for a revised *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*').

Some existing International Financial Reporting Standards (IFRS) contain references to, and quotes from, the existing version of the *Conceptual Framework* or the version that was replaced in 2010. This separate Exposure Draft proposes to update those references and quotes so that they refer to the revised *Conceptual Framework*. In addition, the IASB proposes to remove a number of footnotes that refer to the changes made to the *Conceptual Framework* in 2010 (see Appendix A).

The proposed amendments are most likely to have an effect when entities use the *Conceptual Framework*:

(a) to develop and apply accounting policies when no Standard specifically applies to a transaction, other event or condition.[1]

(b) to select or change an accounting policy when a Standard permits a choice of accounting policies. Entities are subject to an overall requirement that the financial statements must provide a fair presentation of the entity's financial position, financial performance and cash flows.[2]

The IASB proposes a transition period of approximately 18 months for each of these amendments. Early application would be permitted.

The IASB proposes that the amendments should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except for the proposed amendments to IFRS 3 *Business Combinations*. The IASB proposes that entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.

1 See paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

2 See paragraph 15 of IAS 1 *Presentation of Financial Statements*.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative that the IASB should consider, if applicable.

The IASB is requesting comments only on matters that are addressed in this Exposure Draft. It is not requesting comments on other aspects of the Standards mentioned here.

Comments should be submitted in writing so as to be received no later than **26 October 2015**.

The comment period is the same as for the Exposure Draft *Conceptual Framework for Financial Reporting*. The IASB welcomes all comments, regardless of whether respondents submit comments on both Exposure Drafts or on only one of them.

Questions for respondents

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?

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?

Question 3—Other comments

Do you have any other comments on the proposals?

How to comment

Comments should be submitted using one of the following methods.

Electronically (our preferred method)	Visit the 'Comment on a proposal' page, which can be found at: go.ifrs.org/comment
Email	Email comments can be sent to: commentletters@ifrs.org
Postal	IFRS Foundation 30 Cannon Street London EC4M 6XH United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

[Draft] Amendments to IFRS 2 *Share-based Payment*

Paragraph 63D is added. New text is underlined.

Effective date

...

63D As a result of the revision of the [draft] *Conceptual Framework for Financial Reporting* in [date], the footnote to the definition of an equity instrument in Appendix A was amended. An entity shall apply that amendment for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In Appendix A, the footnote to the definition of an equity instrument is amended. Deleted text is struck through and new text is underlined.

* The *Conceptual Framework for Financial Reporting* defines a liability as a present obligation of the entity ~~arising from~~ to transfer an economic resource as a result of past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (ie an outflow of cash or other assets of the entity)~~.

[Draft] Amendments to IFRS 3 *Business Combinations*

Paragraph 11 is amended and paragraph 64M is added. Deleted text is struck through and new text is underlined.

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the ~~*Framework for the Preparation and Presentation of Financial Statements*~~ <u>*Conceptual Framework for Financial Reporting*</u> at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs.

...

Effective date

...

<u>64M</u> <u>As a result of the revision of the [draft] *Conceptual Framework for Financial Reporting* in [date], paragraph 11 was amended. An entity shall apply that amendment to business combinations for which the acquisition date is on or after [effective date]. Earlier application is permitted. An entity shall apply that amendment prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.</u>

[Draft] Amendments to IFRS 4 *Insurance Contracts*

In the Introduction, paragraph IN4 is amended. Deleted text is struck through and new text is underlined.

Main features of the IFRS

...

IN4 The IFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the ~~*Framework*~~ <u>*Conceptual Framework for Financial Reporting*</u> in selecting accounting policies for insurance contracts. However, the IFRS:

(a) ...

In the Guidance on implementing IFRS 4, paragraph IG16 is amended. Deleted text is struck through and new text is underlined.

Materiality

...

IG16 IAS 1 also explains the following:

> Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The ~~*Framework for the Preparation and Presentation of Financial Statements*~~ <u>*Conceptual Framework for Financial Reporting*</u> states in paragraph ~~25~~ <u>2.35</u> that '<u>Financial reports are prepared for</u> users ~~are assumed to~~ <u>who</u> have a reasonable knowledge of business and economic activities and ~~accounting and a willingness to study~~ <u>who review and analyse</u> the information ~~with reasonable diligence~~ <u>diligently</u>.'[3] Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

3 Note for the readers of this Exposure Draft: the corresponding reference in the existing *Conceptual Framework* is paragraph QC32.

[Draft] Amendments to IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Paragraph 10 is amended and paragraph 26A is added. Deleted text is struck through and new text is underlined.

Elements of cost of exploration and evaluation assets

...

10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The ~~*Framework*~~ <u>*Conceptual Framework for Financial Reporting*</u> and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.

...

Effective date

...

<u>26A</u> <u>As a result of the revision of the [draft] *Conceptual Framework for Financial Reporting* in [date], paragraph 10 was amended. An entity shall apply that amendment for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.</u>

[Draft] Amendments to IAS 1 *Presentation of Financial Statements*

Paragraphs 7, 15, 19–20, 23–24, 28 and 89 are amended and paragraph 139Q is added. Deleted text is struck through and new text is underlined.

Definitions

7 **The following terms are used in this Standard with the meanings specified:**

...

Material **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The ~~*Framework for the Preparation and Presentation of Financial Statements*~~ *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*') states in paragraph ~~25~~ 2.35 that 'Financial reports are prepared for users ~~are assumed to~~ who have a reasonable knowledge of business and economic activities and ~~accounting and a willingness to study~~ who review and analyse the information ~~with reasonable diligence~~ diligently.'[4] Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

...

Fair presentation and compliance with IFRSs

15 **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework*. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

...

19 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in**

4 Note for the readers of this Exposure Draft: the corresponding reference in the existing *Conceptual Framework* is paragraph QC32.

the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

20 **When an entity departs from a requirement of an IFRS in accordance with paragraph 19, it shall disclose:**

(a) **that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;**

(b) **that it has complied with applicable IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;**

(c) **the title of the IFRS from which the entity has departed, the nature of the departure, including the treatment that the IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and**

(d) **for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

...

23 **In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **the title of the IFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and**

(b) **for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*.

...

Accrual basis of accounting

...

28 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Conceptual Framework*.

...

Profit or loss for the period

...

89 Some IFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current period. IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other IFRSs require or permit components of other comprehensive income that meet the *Conceptual Framework*'s definition of income or expense to be excluded from profit or loss (see paragraph 7).

...

Transition and effective date

...

139Q As a result of the revision of the [draft] *Conceptual Framework* in [date], paragraphs 7, 15, 19–20, 23–24, 28 and 89 were amended. An entity shall apply those amendments for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

[Draft] Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 6 and 11 are amended and paragraph 54F is added. Deleted text is struck through and new text is underlined.

Definitions

...

6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The ~~*Framework for the Preparation and Presentation of Financial Statements*~~ <u>*Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*')</u> states in paragraph ~~25~~ <u>2.35</u> that '<u>Financial reports are prepared for</u> users ~~are assumed to~~ <u>who</u> have a reasonable knowledge of business and economic activities and ~~accounting and a willingness to study~~ <u>who review and analyse</u> the information ~~with reasonable diligence~~ <u>diligently</u>.'[5] Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

...

Selection and application of accounting policies

...

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements in IFRSs dealing with similar and related issues; and

(b) the definitions, recognition criteria, and measurement concepts for assets, liabilities, income and expenses in the *<u>Conceptual</u> Framework*.

...

Effective date

...

<u>54F As a result of the revision of the [draft] *Conceptual Framework* in [date], paragraphs 6 and 11 were amended. An entity shall apply those amendments for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.</u>

5 Note for the readers of this Exposure Draft: the corresponding reference in the existing *Conceptual Framework* is paragraph QC32.

[Draft] Amendments to IAS 34 *Interim Financial Reporting*

Paragraphs 31 and 33 are amended and paragraph 58 is added. Deleted text is struck through and new text is underlined.

Same accounting policies as annual

...

31 Under the ~~*Framework for the Preparation and Presentation of Financial Statements* (the *Framework*),~~ <u>*Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*'),</u> recognition is the 'process of ~~incorporating in the balance sheet or income statement~~ <u>capturing, for inclusion in the statement of financial position or the statement(s) of financial performance,</u> an item that meets the definition of an element ~~and satisfies the criteria for recognition~~'. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

...

33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. ~~The *Framework* says that 'expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably… [~~The~~]~~ <u>*Conceptual*</u> *Framework* does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.~~'~~

...

Effective date

...

<u>58</u> <u>As a result of the revision of the [draft] *Conceptual Framework* in [date], paragraphs 31 and 33 were amended. An entity shall apply those amendments for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.</u>

[Draft] Amendments to SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

Paragraph 6 and the 'Effective date' section are amended. Deleted text is struck through and new text is underlined.

Consensus

...

6 The definitions and guidance in ~~paragraphs 49–64~~ Chapter 4 of the ~~*Framework*~~ *Conceptual Framework for Financial Reporting* shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the Entity include:

(a) ...

Effective date

...

As a result of the revision of the [draft] *Conceptual Framework for Financial Reporting* in [date], paragraph 6 was amended. An entity shall apply that amendment for annual periods beginning on or after [effective date]. Earlier application is permitted. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

[Draft] Amendments to SIC-32 *Intangible Assets—Web Site Costs*

Paragraph 5 is amended. Deleted text is struck through and new text is underlined.

Issue

...

5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under IAS 16. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1.88 and the ~~*Framework*~~ *Conceptual Framework for Financial Reporting* when the services are received.

Appendix A
Removal of clarifying footnotes

After the revisions to the Conceptual Framework *in 2010, a number of footnotes were added to various Standards, or to their Introductions or the Guidance on implementing them. Once the revisions proposed in this Exposure Draft become effective, these clarifying footnotes will no longer be needed. Hence, this appendix proposes their removal.*

Footnotes deleted from:

Document	**Position in text**
IFRS 3	paragraph 11
IFRS 4	paragraph IN4 of the Introduction, paragraph IG16 of the Guidance on implementing IFRS 4
IFRS 6	paragraph 10
IAS 1	second part of the definition of 'material' in paragraph 7, paragraphs 15, 28 and 89
IAS 8	paragraphs 6 and 11
IAS 34	paragraph 31
SIC-27	paragraph 6
SIC-32	paragraph 5

Approval by the Board of *Updating References to the Conceptual Framework* (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32) published in May 2015

The Exposure Draft *Updating References to the Conceptual Framework* was approved for publication by fourteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Amaro Luiz De Oliveira Gomes	
Martin Edelmann	
Patrick Finnegan	
Gary Kabureck	
Suzanne Lloyd	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on the Exposure Draft *Updating References to the Conceptual Framework* (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)

This Basis for Conclusions accompanies, but is not part of, this Exposure Draft.

References to the *Conceptual Framework* in existing Standards

BC1 In 2010 the IASB replaced the *Framework for the Preparation and Presentation of Financial Statements* (the '*Framework*') with the *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*'). The main text of the existing Standards was not amended to reflect this change in the title of the *Conceptual Framework*; instead, clarifying footnotes were included after some, but not all, references to the *Framework*.

BC2 In its separate Exposure Draft, *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework* Exposure Draft'), published at the same time as this Exposure Draft, the IASB sets out the proposals for revisions to the *Conceptual Framework*. The IASB thinks that once it completes the revisions resulting from that Exposure Draft, its Standards should contain references only to the revised version of the *Conceptual Framework*, not to any previous version.

BC3 Consequently, the IASB is issuing this Exposure Draft, which contains proposals:

(a) to replace references in IFRS to the *Framework for the Preparation and Presentation of Financial Statements* with references to the *Conceptual Framework for Financial Reporting* and to remove related footnotes. The IASB proposes to replace these references in all existing Standards, except those that would have been superseded when the revisions come into effect.

(b) to update some direct quotes from the *Framework* in the text of existing Standards to make them consistent with the references mentioned in paragraph BC3(a).

BC4 The IASB believes that these changes will not have a significant effect on the requirements of these Standards.

Quotes from the existing *Conceptual Framework* in existing Standards

BC5 Some existing Standards directly quote definitions in the existing *Conceptual Framework* without cross-referring to that document:

(a) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* quotes the existing definition of a liability; and

(b) IAS 38 *Intangible Assets* quotes the existing definition of an asset.

BC6 The IASB is not proposing to update these quotes at this time. It has considered the possible implications of the proposed changes in the definitions of assets and liabilities in the *Conceptual Framework* Exposure Draft within these Standards and considers that the changes would not cause any practical problems in applying the Standards. The IASB's aim in revising the definitions in the *Conceptual Framework* was to provide more clarity, not to fundamentally change how the definitions are applied in any existing Standard. Accordingly, the IASB concluded that there would be little benefit in updating these quotes now, and updating them could run the risk of unintended consequences.

BC7 The wording in the definition of materiality in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is slightly different from that in the *Conceptual Framework* Exposure Draft. The IASB is not proposing to update the materiality definitions in IAS 1 and IAS 8 as part of the *Conceptual Framework* project. It is considering whether to align the definitions in these Standards with the definition in the *Conceptual Framework* as part of its Disclosure Initiative.[6]

Transition and effective date

BC8 The updating of references to the *Conceptual Framework* is most likely to have an effect when entities use the *Conceptual Framework*:

(a) in developing and applying accounting policies, in accordance with IAS 8, when no Standard specifically applies to a transaction, other event or condition.

(b) in selecting or changing an accounting policy when a Standard permits a choice of accounting policies. IAS 1 requires entities to produce financial statements that provide a fair presentation of the entity's financial position, financial performance and cash flows.

BC9 The IASB considered how entities should account for changes in accounting policies resulting from the proposed amendments. In particular, the IASB discussed:

(a) whether to allow entities to retain their existing accounting policy in some or all such cases. It rejected this approach because that could result in financial statements being prepared on the basis of concepts that could be inconsistent with those included in the revised *Conceptual Framework*.

(b) whether to require prospective application of the revised *Conceptual Framework*. The IASB rejected this approach for most amendments because it would compromise the comparability of financial statements. However, the IASB proposes that entities should apply the amendments to IFRS 3 *Business Combinations* prospectively, thereby avoiding the need to restate previous business combinations.

BC10 Consequently, the IASB proposes that entities should account for any changes in accounting policies arising from the proposed amendments (except for those to IFRS 3) retrospectively in accordance with IAS 8, subject to the impracticability

6 The Disclosure Initiative is a collection of implementation and research projects aimed at improving disclosure in IFRS financial reporting.

provisions set in that Standard. If material, information about such changes in accounting policies would require disclosure in accordance with IAS 8.

BC11 The IASB acknowledges that some entities will need time to identify and understand the effects of the amendments on their accounting policies and prepare for the retrospective application. Consequently, the IASB proposes to set a transition period of approximately 18 months for the proposed amendments. However, the IASB proposes to permit early application because some entities may not find it difficult to start applying the amendments immediately, and the IASB sees no reason to delay the adoption of improvements by such entities.

BC12 The IASB proposes to add an effective date paragraph to each amended Standard except for:

(a) IFRS 4, because the amendments affect only the Introduction to the Standard and the Guidance on implementing it; they do not affect the Standard itself; and

(b) SIC-32, because an amendment is proposed to the paragraph describing the background to an issue and does not affect the consensus reached.

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