

**Purpose of this paper**

1. This paper is a high level overview of the feedback on the IASB [Discussion Paper \*A Review of the Conceptual Framework for Financial Reporting\*](#), published in July 2013. More information can be found in the individual feedback summaries: [Agenda Papers 10A-M](#) for the March 2014 IASB meetings.
2. This paper includes feedback from both comment letters received and the 140 outreach meetings undertaken by IASB members and staff during the six-month comment period.
3. The outreach meetings included roundtables, meetings organised by local standard-setters and discussions with formal advisory bodies to the IASB. In addition, IASB members and staff conducted targeted outreach with users of financial statements.

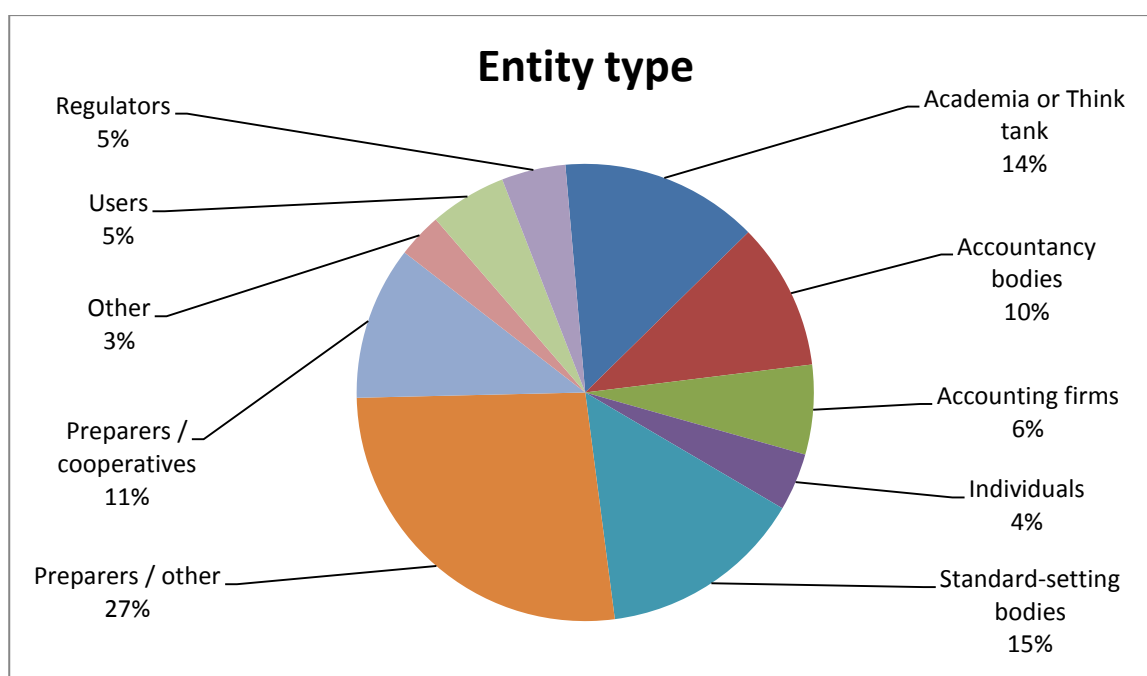
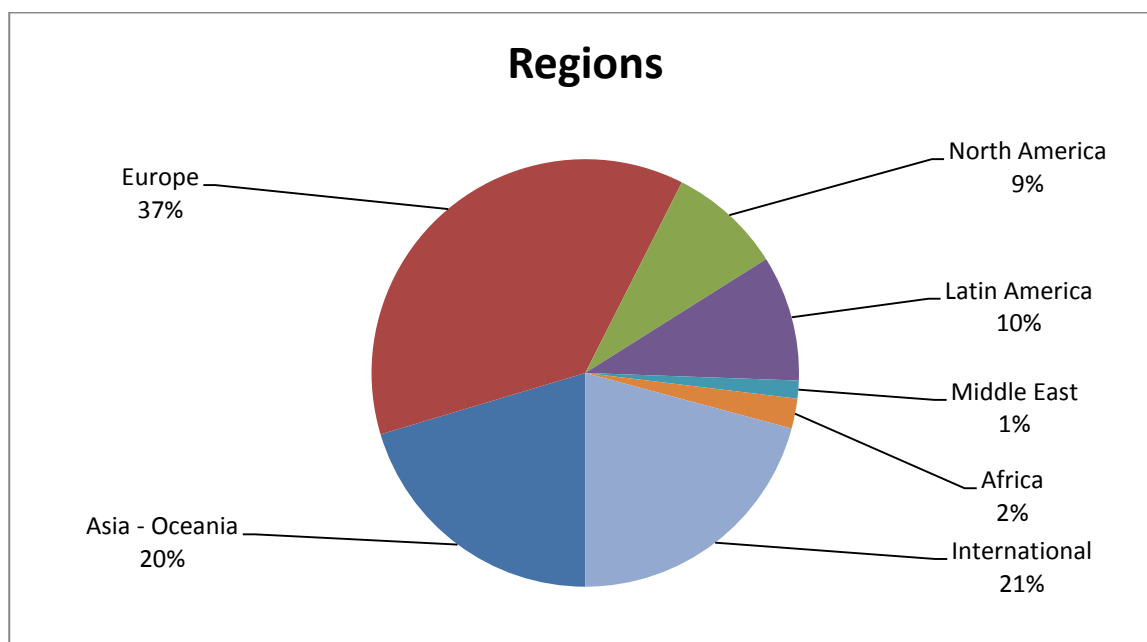
**Demographics of the comment letters received**

4. The IASB received 221 comment letters by 24 February 2014. The pie charts below illustrate the breakdown of the comment letters by geographical region and respondent type.

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## General overview ([Agenda Paper 10A](#))

5. Nearly all of those who commented expressed support for the IASB's project to revise the *Conceptual Framework*.
6. In addition:
  - (a) Some respondents expressed the view that the Discussion Paper was underdeveloped in some areas. The sections on measurement, presentation and disclosure and presentation in the statements of profit

or loss and other comprehensive income (OCI) were often cited as examples of this concern.

- (b) Some respondents expressed support for the proposal to finalise a revised *Conceptual Framework* by the end of 2015. However, many of those who commented on the timetable suggested that the IASB should take more time to develop some aspects of the *Conceptual Framework* more fully.
- (c) Many respondents supported the IASB's decision to build on the existing *Conceptual Framework*—updating, improving and filling in the gaps rather than fundamentally reconsidering all aspects of the *Conceptual Framework*. However, many respondents commented on the IASB's proposal not to fundamentally reconsider Chapters 1 and 3 of the *Conceptual Framework*, which were published in 2010 and deal with the objective of financial reporting and the qualitative characteristics of useful financial information. Paragraph 25 contains an overview of comments received on Chapters 1 and 3.
- (d) Many respondents supported the suggestion that the IASB should review the *Conceptual Framework* from time to time in the light of the IASB's experience of working with it.
- (e) Many respondents expressed the view that the IASB should undertake and publish a review of existing Standards, and of Standards under development, to identify potential conflicts with the revised *Conceptual Framework*.
- (f) Many respondents agreed that the revised *Conceptual Framework* should address only financial statements (rather than financial reporting), at least for now.

## **Purpose and status of the *Conceptual Framework* ([Agenda Paper 10B](#))**

- 7. Some respondents agreed that the primary purpose of the *Conceptual Framework* is to assist the IASB to develop or revise Standards. However, many respondents thought that this view risks understating the role of the *Conceptual Framework*.

8. Many respondents also agreed with the IASB's preliminary view that in rare cases, a new or revised Standard may be allowed to conflict with aspects of the *Conceptual Framework*.

## **Elements of financial statements and recognition ([Agenda Paper 10C](#))**

9. Many respondents agreed that:
- (a) The definitions of an asset and of a liability should focus more on the resource or obligation, rather than on the flows that might result from them.
  - (b) The reference in the existing definitions to 'expected' flows should be replaced by the notion that the resource or obligation is capable of generating future flows. However, many respondents prefer to retain an explicit probability threshold in either the definitions or the recognition criteria.
  - (c) The recognition criteria should refer to relevance and faithful representation.
  - (d) The *Conceptual Framework* should acknowledge that significant uncertainty and significant measurement difficulties might undermine relevance and make it difficult to provide a faithful representation. However, many respondents believe it would be clearer and more straightforward to retain probability and reliability of measurement as explicit recognition criteria.
  - (e) Cost-benefit considerations should play a role in recognition decisions, but some suggested that the recognition section does not need to refer explicitly to the cost constraint.
  - (f) There is no need to make major changes in this project to the definitions of income and expenses, or to the guidance accompanying those definitions. Respondents had mixed views on whether there is a need to define elements for the statements of changes in equity and of cash flows.

## **Additional guidance to support the asset and liability definitions** **([Agenda Paper 10D](#))**

10. Nearly all respondents agreed with the IASB's preliminary view that the definition of a liability should encompass both legally enforceable and constructive obligations.
11. Most respondents also agreed with the IASB's preliminary view that the definition of a liability should encompass at least some obligations that are conditional on the entity's future actions. Of these respondents, many expressed a preference for an approach that includes obligations that the entity has no practical ability to avoid (View 2 in the Discussion Paper).
12. Respondents suggested that the IASB needs to revisit the interaction between all 'in substance' obligations (whether constructive or conditional). It should seek a unifying principle, consistent terminology and a consistent approach to the role of economic compulsion.
13. There were mixed views on the suggestion that, for a physical object, the entity's asset (its economic resource) is not the underlying object, but a right (or set of rights) to obtain the economic benefits generated by the object.
14. Some respondents suggested that the guidance on executory contracts needs further development.

## **Derecognition ([Agenda Paper 10E](#))**

15. Respondents were split on the approach to be used for derecognition (ie the control approach, the risks-and-rewards approach or a combination of these approaches).

## **Definition of equity and distinction between liabilities and equity instruments ([Agenda Paper 10F](#))**

16. Many respondents:
  - (a) agreed that the definition of a liability should be used to distinguish equity claims from liability claims. However there were mixed views regarding the details and consequences of this approach, and whether

those concerns should be addressed in this project or in a Standards-level project.

- (b) supported providing additional information on the effects of different classes of equity claims. However many of these respondents suggested that updating the measurement was not the best way to achieve this. They warned the IASB to consider whether the benefits of developing the proposals further would outweigh the costs.

## **Measurement and capital maintenance ([Agenda Paper 10G](#))**

17. Many respondents:

- (a) supported the mixed measurement approach suggested in the Discussion Paper;
- (b) agreed that the selection of a measurement basis:
  - (i) for a particular asset should depend on how that asset contributes to future cash flows; and
  - (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.
- (c) suggested that the business model concept could help the IASB decide on a measurement basis;
- (d) agreed that the IASB should consider both the statement of financial position and the statement(s) of profit or loss and OCI when selecting a measurement basis; and
- (e) agreed with the IASB's proposal to leave the existing descriptions and the discussion of capital maintenance concepts in the *Conceptual Framework* largely unchanged until such time as work towards a new or revised Standard on accounting for high inflation indicates a need for change.

18. However, some respondents expressed the view that the measurement section:

- (a) requires more thought and analysis;
- (b) merely codifies existing practice; and
- (c) includes too much Standards-level detail.

## **Presentation and disclosure ([Agenda Paper 10H](#))**

19. Most respondents commented on some aspect of the discussion of presentation and disclosure in the Discussion Paper; however, comments were often very general.
20. Some respondents think that the Discussion Paper would not provide the IASB with adequate guidance for setting disclosure requirements in Standards and reviewing existing disclosure requirements.
21. Many respondents agreed with the suggestion in the Discussion Paper not to revise the concept of materiality but to undertake other work on materiality outside the *Conceptual Framework*.
22. Many respondents agreed with the suggestion in the Discussion Paper to include communication principles in the *Conceptual Framework*. Some respondents raised specific comments about some of the communication principles and suggested that other principles that should be included.

## **Presentation in the statement of comprehensive income—profit or loss and other comprehensive income (OCI, [Agenda Paper 10I](#))**

23. Many respondents made general comments on presentation in the statement of comprehensive income. The common themes were:
  - (a) Many respondents expressed the view that presentation in the statement of comprehensive income requires further thought and analysis. Specifically, some thought that the distinction between profit or loss and OCI proposed in the Discussion Paper was not sufficiently clear and conceptually robust and merely attempted to justify the existing requirements. Some urged the IASB to explore the broader question of financial performance and consider presentation in the statement of comprehensive income within that context.
  - (b) Some respondents expressed views on where and when presentation in the statement of comprehensive income and related matters should be addressed. Some believed those matters should be addressed in the *Conceptual Framework*, whereas others believed it is more appropriate

to address those matters in the relevant Standards, such as a Standard on presentation of financial statements.

- (c) Some respondents stated that measurement of assets and liabilities and presenting changes in measurement could not—and should not—be considered in isolation. Instead, the IASB should consider measurement of assets and liabilities from both the financial position and performance perspectives.

24. Respondents expressed mixed views on most of the specific questions in the Discussion Paper and related matters. The following key themes emerged:

- (a) Most respondents agreed that profit or loss should be required to be presented as a total or subtotal.
- (b) Many respondents disagreed with treating profit or loss as a default category and urged the IASB to define or better describe profit or loss and its purpose; however, only a few made suggestions as to how that might be done. No consensus view emerged.
- (c) Respondents expressed a variety of views on recycling ranging from ‘always recycle’ to ‘never recycle’. However, most respondents supported recycling for some, or all items included in OCI. Views expressed on recycling did not necessarily link to the categories identified by the Discussion Paper.
- (d) Respondents expressed a variety of views on items that could be included in OCI. Most respondents favoured—or could accept—Approach 2B in the Discussion Paper (the ‘broad’ approach to OCI), although not necessarily for the reasons discussed or for the categories included in OCI under that approach. Instead, many of these respondents merely preferred a broad OCI or favoured flexibility in the use of OCI.

## **Chapter 1 and Chapter 3 of the existing *Conceptual Framework* ([Agenda Paper 10J](#))**

25. About three-quarters of respondents commented on whether the IASB should reconsider Chapters 1 and 3 of the existing *Conceptual Framework*. Although



some of those respondents supported leaving these chapters unchanged, many of them argued that the IASB should do one or more of the following:

- (a) give stewardship more prominence;
- (b) reintroduce prudence;
- (c) reconsider the decision to replace the term ‘reliability’ with ‘faithful representation’; and
- (d) include an explicit reference to substance over form, rather than leaving this implicit as part of faithful representation.

### **The use of the business model concept in financial reporting** **([Agenda Paper 10K](#))**

- 26. Most of the respondents who commented supported the IASB’s suggestion to consider how an entity conducts its business activities when it develops or revises Standards. Many viewed that notion as being similar to the concept of a business model. However, there were mixed views on whether the business model concept should be considered as being fundamental to financial reporting or should play a more limited role.
- 27. Many respondents thought that the IASB should, in the *Conceptual Framework*, define the business model concept or provide additional guidance on it.

### **Other issues ([Agenda Paper 10L](#))**

#### ***Unit of account***

- 28. Most of those who commented on the unit of account agreed that it should normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information. However, some respondents thought that the *Conceptual Framework* should set out specific principles to guide the future development of Standards and make existing Standards easier to apply.

## ***Going concern***

29. The Discussion Paper included a discussion of the going concern assumption and noted that the IASB had identified three situations in which the going concern assumption is relevant. Most of those who responded agreed with the situations identified by IASB and did not identify any other situations in which the going concern assumption might be relevant. However, some respondents thought that the going concern assumption should be treated as a fundamental underlying assumption relevant to all aspects of financial reporting and its relevance should not be limited to three identified situations.

## ***Reporting entity***

30. There were relatively few comments on ‘reporting entity’. However, some respondents stated that the perspective from which financial statements are presented (ie the entity or the proprietary perspective) is critical and should be discussed in the *Conceptual Framework*.