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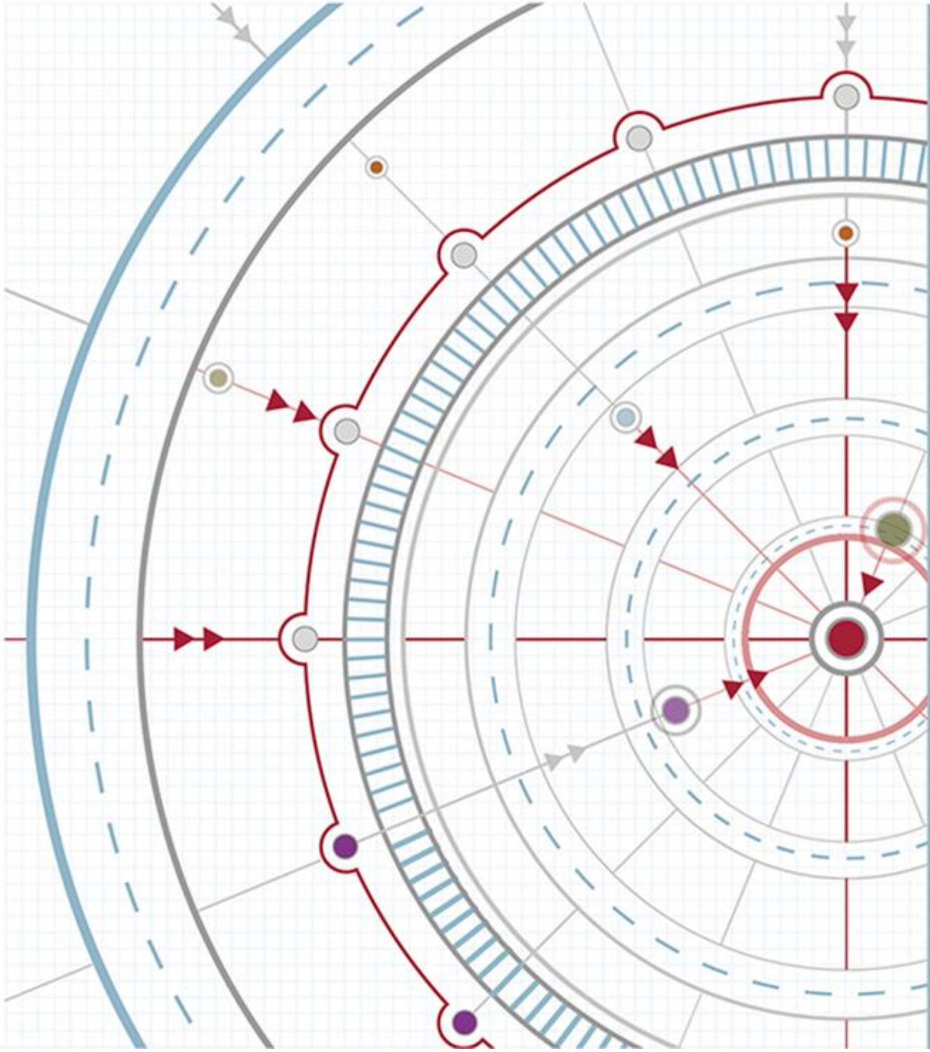

Conceptual Framework for Financial Reporting

Summary of tentative decisions

October 2017

Summary of tentative decisions on the *Conceptual Framework for Financial Reporting*

About this paper

This paper lists the International Accounting Standard Board's (Board's) tentative decisions on the proposals in the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft) and the Exposure Draft *Updating References to the Conceptual Framework* to date. It reflects tentative decisions the Board made up to and including its meeting on 25 October 2017.

Staff papers related to tentative Board decisions presented in this document

20 April 2016 meeting:

Agenda Paper 10A *Purpose and status of the Conceptual Framework*

Agenda Paper 10B *Approach to redeliberations*

Agenda Paper 10C *Approach to redeliberations—Measurement*

Agenda Paper 10D *Approach to redeliberations—Reporting financial performance*

Agenda Paper 10E *Approach to redeliberations—Concepts for liabilities and equity*

18 May 2016 meeting:

Agenda Paper 10B *Chapters 1 and 2—Introduction*

Agenda Paper 10C *Stewardship*

Agenda Paper 10D *Prudence*

Agenda Paper 10E *Measurement uncertainty*

22 June 2016 meeting:

Agenda Paper 10B *Definitions of income and expenses*

Agenda Paper 10C *Information about financial performance*

18 July 2016 meeting:

Agenda Paper 10B *Asset definition and supporting concepts*

Agenda Paper 10C *Recognition*

Agenda Paper 10D *Measurement*

22 September 2016 meeting:

Agenda Paper 10B *The reporting entity*

Agenda Paper 10C *Presentation and disclosure*

Agenda Paper 10D *Asymmetry in treating gains and losses*

Agenda Paper 10E *Definition of equity and supporting discussion*

18 October 2016 meeting:

Agenda Paper 10B *Testing the proposed asset and liability definitions—matters arising*

Agenda Paper 10C *Testing the proposed asset and liability definitions—illustrative examples*

Agenda Paper 10D *Executory contracts*

Agenda Paper 10E *Unit of account*

Agenda Paper 10G *Asymmetry in treating gains and losses*

Agenda Paper 10H *Materiality*

15 November 2016 meeting:

Agenda Paper 10C *Liability definition and supporting concepts—the 'no practical ability to avoid' criterion*

Agenda Paper 10D *Liability definition and supporting concepts—reducing the risk of further changes*

Agenda Paper 10E *Liability definition and supporting concepts—other topics*

14 December 2016 meeting:

Agenda Paper 10B *Measurement—redrafting the factors to consider in selecting a measurement basis*

Agenda Paper 10C *Measurement: suggested redraft of parts of Chapter 6*

Agenda Paper 10D *Measurement: comparison of suggested redraft of parts of Chapter 6 with the Exposure Draft*

Agenda Paper 10E *Business activities and long-term investment*

Agenda Paper 10F *Concepts of capital and capital maintenance*

18 January 2017 meeting:

Agenda Paper 10B *Factors specific to initial measurement*

Agenda Paper 10C *Factors specific to initial measurement—illustrative drafting*

Agenda Paper 10D *More than one relevant measurement basis*

Agenda Paper 10E *Updating References Exposure Draft—proposed amendments*

Agenda Paper 10F *Updating References Exposure Draft—transition and effective date*

23 February 2017 meeting:

Agenda Paper 10B *Measurement Appendix A: Cash-flow-based measurement techniques*

Agenda Paper 10D *Effects of the revised Conceptual Framework*

Agenda Paper 10E *Minor comments on concepts supporting asset and liability definitions*

21 March 2017 meeting:

Agenda Paper 10B *Applying the amendment to paragraph 11 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to rate-regulated activities*

21 September 2017 meeting:

Agenda Paper 10 *Sweep issue: measurement uncertainty and the fundamental qualitative characteristics of useful financial information*

25 October 2017 meeting:

Agenda Paper 10A *Sweep issue—concepts supporting the liability definition*

Agenda Paper 10G *Derecognition*

Agenda Paper 10B *Sweep issue—a flowchart for Chapter 1*

Proposals in the Exposure Draft	Tentative decisions for the revised *Conceptual Framework*

Approach to the project

The Board aims to make significant improvements to the *Conceptual Framework* without delay and expects to complete the revisions to the *Conceptual Framework* in 2017. To achieve this, the Board is building on the existing *Conceptual Framework*—updating it, improving it and filling in gaps instead of fundamentally reconsidering all aspects of the *Conceptual Framework*.

On 20 April 2016 the Board tentatively decided that it would redeliberate the topics that have proved controversial or those where new information has become available. On other topics, the Board would confirm the proposals in the Exposure Draft but will not undertake significant additional analysis.

The Board tentatively decided that, in analysing the effects of the *Conceptual Framework*, the staff

(a) would not be asked to perform a comprehensive analysis of:

(i) the effects of the revised *Conceptual Framework* on future standard-setting; or

(ii) inconsistencies between the revised *Conceptual Framework* and Standards.

(b) would be asked to:

(i) perform a more extensive analysis of the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—could have for current projects;

(ii) analyse additional inconsistencies between the revised *Conceptual Framework* and Standards suggested by respondents; and

(iii) perform a more detailed analysis of the effects of the revised *Conceptual Framework* on preparers.

Introduction

The Exposure Draft states that the *Conceptual Framework for Financial Reporting* (the '*Conceptual Framework*') describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the *Conceptual Framework* is to:

(a) assist the Board to develop Standards that are based on consistent concepts;

On 20 April 2016 the Board discussed the status and purpose of the *Conceptual Framework*. The Board tentatively decided:

(a) to confirm the proposal in the Exposure Draft that the purpose of the *Conceptual Framework* is to:

(b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy; and

(c) assist all parties to understand and interpret the Standards.

The *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any specific Standards.

To meet the overall objective of general purpose financial reporting, the Board may sometimes specify requirements that depart from aspects of the *Conceptual Framework*. If the Board does so, it will explain the departure in the Basis for Conclusions on the Standard in question.

The *Conceptual Framework* may be revised from time to time on the basis of the Board's experience of working with it.

The *Conceptual Framework* reflects and contributes to the stated mission of the IFRS Foundation, including the Board, to develop International Financial Reporting Standards that bring transparency, accountability and efficiency to financial markets around the world.

(i) assist the Board to develop IFRS Standards that are based on consistent concepts;

(ii) assist preparers to develop consistent accounting policies when no IFRS Standard applies to a particular transaction or event, or when an IFRS Standard allows a choice of accounting policy; and

(iii) assist all parties to understand and interpret IFRS Standards;

(b) to retain the existing status of the *Conceptual Framework*, and to confirm the proposal in the Exposure Draft to explain any departures from aspects of the *Conceptual Framework* in the Basis for Conclusions accompanying the Standard in question;

(c) to confirm the proposal in the Exposure Draft that the *Conceptual Framework* should state that it may be revised from time to time; and

(d) to not include in the Basis for Conclusions on the *Conceptual Framework* examples of events and circumstances that could trigger a revision of the *Conceptual Framework*.

Chapter 1—The objective of general purpose financial reporting

The description of the objective of general purpose financial reporting in the Exposure Draft has been carried forward from the current version of the *Conceptual Framework*:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

The Exposure Draft proposes 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.

To achieve this, the Exposure Draft proposes to reintroduce the term 'stewardship' and to explicitly explain that investors', lenders' and other creditors' expectations about returns (that affect their decisions to buy, sell or hold investments and provide or settle loans) depend not only on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity, but also on their assessment of management's stewardship of the entity's resources.

On 18 May 2016 the Board discussed whether any changes are needed to the discussion of stewardship in Chapter 1—*The objective of general purpose financial reporting* and tentatively decided to:

(a) clarify the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as:

  (i) decisions to buy, sell or hold equity and debt instruments;

  (ii) decisions to provide or settle loans and other forms of credit; and

  (iii) decisions needed to exercise rights while holding investments, such as rights to vote on or otherwise influence management's actions.

(b) retain paragraphs 1.22–1.23 of the Exposure Draft without explaining further which aspects of management's stewardship responsibilities can be assessed using information in financial reports.

(c) continue using the term 'stewardship' in the *Conceptual Framework* and explain in the Basis for Conclusions on the *Conceptual Framework* what the term 'stewardship' means and how it relates to the term 'accountability'.

The Board tentatively decided to indicate in the Basis for Conclusions on the revised *Conceptual Framework* that increasing the prominence of stewardship within the objective of financial reporting does not imply a preference for a historical cost measurement basis.

In addition, on 18 May 2016 the Board tentatively decided to retain the existing description of the primary user group in Chapter 1.

On 28 October 2017 the Board considered whether to include in Chapter 1 a flowchart that illustrates the link between the objective of general purpose financial reporting and the information needed to meet that objective. The Board tentatively decided that including such a flowchart in Chapter 1 was unnecessary.

Chapter 2—Qualitative characteristics of useful financial information

When the Board restarted work on the *Conceptual Framework* project in 2012, it decided not to fundamentally reconsider the chapter on qualitative characteristics.

The Exposure Draft proposes to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information. It does not propose any changes to the description of enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) or the cost constraint.

However, in response to the comments received on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, the Exposure Draft proposes a number of changes.

On 18 May 2016 the Board tentatively decided to confirm that relevance and faithful representation should continue to be identified as the two fundamental qualitative characteristics of useful financial information.

On 18 October 2016 the Board tentatively confirmed the definition of materiality proposed in the Exposure Draft. That definition will not be updated for the amendments discussed in the Principles of Disclosure project.

Reintroduction of prudence

The Exposure Draft proposes to reintroduce an explicit reference to the notion of prudence:

> 2.18. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and income are not understated. Equally, the exercise of prudence does not allow for the understatement of assets and income or the overstatement of liabilities and expenses, because such mis-statements can lead to the overstatements of income or the understatement of expenses in future periods.

The Basis for Conclusions distinguishes between two types of prudence:

(a) ‘cautious prudence’—a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than those relating to losses and liabilities. It is in this sense that the Board proposes to reintroduce prudence in the *Conceptual Framework*.

(b) ‘asymmetric prudence’—a need for systematic asymmetry: losses are recognised at an earlier stage than gains are. The Board thinks that the *Conceptual Framework* should not identify asymmetric prudence as a necessary characteristic of useful financial information. However, it explained that

On 18 May 2016 the Board tentatively decided to confirm that the revised *Conceptual Framework* should include a reference to prudence described as the exercise of caution when making judgements under conditions of uncertainty, as proposed in the Exposure Draft.

The Board tentatively decided that there is no need to explain in the Basis for Conclusions on the *Conceptual Framework* that the notion of prudence cannot be used by preparers to override the requirements in IFRS Standards because the *Conceptual Framework* already includes a statement that it is not a Standard and does not override any specific Standards.

In addition, the Board directed the staff to explore further whether and how the *Conceptual Framework* should acknowledge that asymmetric treatment of gains (or assets) and losses (or liabilities) could be selected if such selection is intended to result in relevant information that faithfully represents what it purports to represent.

On 22 September 2016 the Board tentatively decided that the main body of the revised *Conceptual Framework* should acknowledge that, in some cases, income may need to be treated differently from expenses and assets differently from liabilities. The Board directed the staff to develop the wording for such an acknowledgement for discussion at a future Board meeting.

On 18 October 2016 the Board tentatively decided that Chapter 2—*Qualitative characteristics of useful financial information* of the revised *Conceptual Framework* should acknowledge that the exercise of prudence does not imply a need for accounting policies that treat gains differently from losses could be selected in accordance with the proposals in the Exposure Draft if:

(i) they are selected in a manner that is not intended to increase the probability that financial information will be received favourably or unfavourably by users of financial statements (ie neutral accounting policies are selected); and

(ii) their selection is intended to result in relevant information that faithfully represents what it purports to represent.

asymmetry—for example, a need for more persuasive evidence to support the recognition of assets than of liabilities or to support the recognition of income than of expenses. Nevertheless, in financial reporting standards such asymmetry may sometimes arise as a consequence of requiring the most useful information.

Explicit reference to substance over form

The Exposure Draft proposes to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form:

> 2.14. Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. <u>A faithful representation provides information about the substance of an economic phenomenon instead of merely providing information about its legal form. Providing information only about a legal form that differs from the economic substance of the underlying economic phenomenon would not result in a faithful representation.</u>

On 18 May 2016 the Board tentatively decided to confirm that it would include in the *Conceptual Framework* an explicit statement that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form.

Discussion of measurement uncertainty

The Exposure Draft proposes 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.

On 18 May 2016 the Board tentatively decided to:

(a) describe measurement uncertainty as a factor affecting faithful representation; and

(b) clarify in the Basis for Conclusions on the revised *Conceptual Framework* that a trade-off can exist between the fundamental qualitative characteristics of relevance and faithful representation.

The Board tentatively decided not to include a brief explanation of existence, outcome and measurement uncertainty in the Introduction to Chapter 2.

On 21 September 2017 the Board tentatively decided that Chapter 2—*Qualitative characteristics of useful financial information* in the revised *Conceptual Framework* should:

(a) clarify that a trade-off may need to be made between relevance and faithful representation and specifically between relevance and measurement uncertainty; but

(b) not discuss how such a trade-off is made.

Chapter 3—Financial statements and the reporting entity

The role of financial statements

The Exposure Draft describes the role of financial statements. Among other things, it:

(a) states that financial statements are prepared from the perspective of the entity as a whole, instead of from the perspective of any particular group of investors, lenders or other creditors; and

(b) sets out the going concern assumption, which has been brought forward largely unchanged from the existing *Conceptual Framework*.

On 22 September 2016 the Board tentatively decided to confirm:

(a) the proposed statement that financial statements are prepared from the perspective of the entity as a whole; and

(b) the proposed going concern assumption.

Description and boundary of a reporting entity

The Exposure Draft describes a reporting entity as an entity that chooses, or is required, to prepare general purpose financial statements. It states that a reporting entity does not have to be a legal entity and can comprise only a portion of an entity or two or more entities.

The Exposure Draft proposes that when one entity (the parent) has control over another entity (the subsidiary), the boundary of the reporting entity can be determined by either direct control only (leading to unconsolidated financial statements) or by direct and indirect control (leading to consolidated financial statements).

The Exposure Draft also states that financial statements are sometimes prepared for two or more entities that do not have a parent-subsidiary relationship and refers to such financial statements as combined financial statements.

The Exposure Draft also states that:

(c) in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements;

(d) consolidated financial statements of the parent entity are not intended to provide information to users of the subsidiary's financial statements; and

On 22 September 2016 the Board tentatively decided to confirm:

(a) the proposed description of a reporting entity as an entity that chooses or is required to prepare general purpose financial statements.

(b) the proposed concepts on the boundary of the reporting entity. The Board directed the staff to clarify in drafting how the proposed concepts place appropriate limitations on what may constitute a reporting entity in situations when the entity is not a legal entity.

(c) the proposed concepts underlying the notions of 'direct' and 'indirect' control, but not to use those specific terms in the *Conceptual Framework*.

(d) the proposed concepts related to the usefulness of information provided in consolidated and unconsolidated financial statements, but to improve the description of those concepts in the *Conceptual Framework*.

The Board also tentatively decided not to include in the *Conceptual Framework* the statement in paragraph 3.25 of the Exposure Draft that an entity that presents unconsolidated financial statements discloses how a user may obtain the entity's consolidated statements.

(e) if an entity chooses, or is required, to prepare unconsolidated financial statements, it would need to disclose how users may obtain the consolidated financial statements.

Chapter 4—The elements of financial statements

The Exposure Draft proposes changes that would affect both the definition of an asset and the definition of a liability. In particular, the Exposure Draft proposes to replace the notion of 'expected' economic benefits with a notion of the 'potential to produce' economic benefits; to define an economic resource as a 'right'; and to align the asset and liability definitions more closely with each other.

Definition of an asset

The Exposure Draft proposes the following definitions:

(a) an asset is a present economic resource controlled by the entity as a result of past events; and

(b) an economic resource is a right that has the potential to produce economic benefits.

To support these definitions, the Exposure Draft proposes further guidance on:

(a) the meaning of the term 'right'; and

(b) the notion of 'control', including the role of 'risks and rewards of ownership' as one indicator of control and the discussion of agents and principals.

On 18 July 2016 the Board tentatively confirmed the proposals in the Exposure Draft that:

(a) the requirements for 'expected' inflows or outflows of economic benefits should be removed from the definitions of an asset and a liability; and

(b) the revised *Conceptual Framework* should instead specify that:

   (i) to meet the definition of an economic resource and, hence, an asset, a right should have the 'potential to produce' economic benefits; and

   (ii) to meet the definition of a liability, an obligation should have the 'potential to require' the entity to transfer an economic resource.

The Board also tentatively decided not to make any major changes to the concepts proposed in the Exposure Draft to explain the phrase 'controlled by the entity' in the definition of an asset.

Further, the Board tentatively decided that:

(a) consistent with the proposals in the Exposure Draft, the revised *Conceptual Framework* should define an economic resource as a 'right', not as a 'right or other source of value'.

(b) the revised *Conceptual Framework* should state that a freely available right of access to public goods (such as roads) would typically not meet the definition of an asset. The Basis for Conclusions should explain that there may be different reasons why such rights would fail to satisfy the definition: one reason could be that a right of access to public goods does not give the entity the potential to receive economic benefits beyond those available to all other parties.

An alternative, or additional reason could be that the entity does not control the right of access.

(c) the revised *Conceptual Framework* should not contain any more discussion of particular types of rights than was proposed in the Exposure Draft.

Definition of a liability

The Exposure Draft proposes to define liability as a present obligation of the entity to transfer an economic resource as a result of past events.

The Exposure Draft explains that the Board is not proposing now to change the definitions of liabilities and equity to address the problems that arise in classifying instruments with characteristics of both liabilities and equity. It is exploring those problems in its Financial Instruments with Characteristics of Equity research project. That project will help the Board to decide, in due course, whether it should add to its Standards-level programme a project on amending IFRS Standards, the *Conceptual Framework* or both. The Exposure Draft states that the Board expects that any such project would not lead to changes in the Exposure Draft's proposals for identifying whether the reporting entity has a present obligation to transfer an economic resource. Those proposals are not designed to address problems in distinguishing between liabilities and equity.

On 20 April 2016 the Board tentatively decided:

(a) not to develop concepts to address challenges that arise in classifying financial instruments with characteristics of both liabilities and equity as part of the *Conceptual Framework* project;

(b) instead, to continue to develop concepts to address those challenges in the Financial Instruments with Characteristics of Equity research project, acknowledging that one outcome of that project might be a need to make further amendments to the revised *Conceptual Framework*; and

(c) to explain this approach, and highlight the possibility of further amendments to the *Conceptual Framework*, in the Basis for Conclusions accompanying the revised *Conceptual Framework*.

Also, the Board tentatively decided:

(a) to continue to develop concepts to address other problems in identifying liabilities (such as the concepts describing a 'present obligation' in paragraphs 4.31-4.39 of the Exposure Draft), and add those concepts to the *Conceptual Framework*, as part of the *Conceptual Framework* project; and

(b) in developing those concepts, to consider refinements to the proposals in the Exposure Draft to reduce the risk of adding to the *Conceptual Framework* new concepts that the Board may need to revisit as a result of future decisions on classification of financial instruments.

On 18 October 2016 the staff introduced to the Board an approach to testing the proposed asset and liability definitions and the concepts supporting those definitions. The Board was asked to identify any matters arising from the testing that may require further discussion as part of the forthcoming redeliberations of the liability definition and supporting concepts. No decisions were made at the Board meeting.

On 15 November 2016 the Board tentatively decided that, as was proposed in the Exposure Draft:

(a) the definitions of an asset and a liability should include both the term ‘present’ and the phrase ‘as a result of past events’.

(b) the concepts supporting the liability definition should not require a ‘present claim’ against the entity by another party.

(c) the revised *Conceptual Framework* should include the concepts proposed in paragraphs 4.25 and 4.26 of the Exposure Draft on the correspondence between assets and liabilities.

(d) the revised *Conceptual Framework* should not contain concepts that specifically address non-reciprocal transactions.

Further, the Board considered refinements to the Exposure Draft proposals to reduce the risk of adding to the *Conceptual Framework* new concepts that the Board may need to change as a result of decisions it makes in its project on Financial Instruments with Characteristics of Equity. It tentatively decided not to add to the revised *Conceptual Framework*:

(a) two statements in the Exposure Draft that would apply in practice only to questions of how to distinguish liabilities from equity claims:

   (i) a statement in paragraph 4.33(b) of the Exposure Draft that, if an entity prepares financial statements on a going concern basis, that entity does not have a liability for a transfer that would be required only on liquidation.

   (ii) a statement in paragraph 4.30 of the Exposure Draft that an obligation of an entity to transfer its own equity claims to another party is not an obligation to transfer an economic resource (paragraph 4.30). That statement implies that an obligation of an entity to transfer its own equity instruments never constitutes a liability (even if the obligation requires the transfer of a variable number of equity instruments with a fixed total value), which is inconsistent with existing IFRS requirements.

(b) the description of a present obligation proposed in paragraph 4.31 of the Exposure Draft. The two criteria identified in that description—the ‘no practical ability to avoid’ criterion and the ‘as a result of past events’ criterion—would continue to be identified as necessary characteristics of a liability (as discussed in paragraphs 4.32-4.39 of the Exposure Draft). But, by not including that description, the revised *Conceptual Framework* would avoid implying that any claim with these two characteristics is necessarily a liability, as opposed to an equity claim.

On 25 October 2017 the Board considered concerns raised by reviewers of the pre-ballot draft of the revised *Conceptual Framework* about the concepts supporting the

Present obligation

The definition of a liability refers to a 'present obligation'. The Exposure Draft proposes that an entity has a present obligation to transfer an economic resource if both:

(a) the entity has no practical ability to avoid the transfer; and

(b) the obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation.

The Exposure Draft proposes additional guidance on the meaning of the phrase 'no practical ability to avoid':

> 4.32 An entity has no practical ability to avoid a transfer if, for example, the transfer is legally enforceable, or any action necessary to avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself. It is not sufficient that the management of the entity intends to make the transfer or that the transfer is probable.

The Basis for Conclusions states that the proposed description of a present obligation would help to resolve questions about whether 'economic compulsion' is sufficient to create a liability:

liability definition. The Board tentatively decided that those concerns can be addressed by improving the drafting, without revisiting earlier Board decisions. The drafting improvements will include:

(a) clarifying in the introduction to the 'definition of a liability' section of the *Conceptual Framework* that each of the three criteria listed in that introduction must be satisfied to meet the definition of a liability;

(b) clarifying that an entity does not yet have a present obligation to transfer an economic resource if it has not yet received economic benefits, or taken an action, that will or may require it to transfer that resource—even if it already has no practical ability to avoid receiving those benefits or taking that action in the future;

(c) clarifying that before an entity has received those benefits or taken that action, it may have an executory contract; and

(d) omitting the phrase 'or simply being in existence' from the list of actions that could give rise to a present obligation.

On 15 November 2016 the Board tentatively decided that, as proposed in the Exposure Draft, the concepts supporting the liability definition should specify that the entity must have 'no practical ability to avoid' transferring an economic resource.

Additionally, the Board tentatively decided:

(a) to refine the concepts on the meaning of 'no practical ability to avoid' proposed in paragraph 4.32 of the Exposure Draft. The refined concepts should state that, to conclude that an entity has 'no practical ability to avoid' a transfer:

  (i) the factors considered would depend on the type of transaction under consideration. For example, for some types of transaction, an entity may have no practical ability to avoid a transfer if all avoiding actions would have economic consequences significantly more adverse than the transfer itself.

  (ii) it would never be sufficient that the management of the entity intends to make the transfer or that the transfer is probable.

(b) to add no further concepts on the meaning of 'no practical ability to avoid' to the *Conceptual Framework* beyond those proposed in the Exposure Draft. Although more detailed requirements and guidance might be needed to apply the 'no practical ability to avoid' criterion, the requirements and guidance would depend on the type of transaction under consideration and so would be more

BC4.75 The IASB thinks that [the two criteria specified in the description of a present obligation] make it clear that:

(a) economic compulsion may be a factor that reduces the entity's practical ability to avoid a future transfer—so it would need to be considered in assessing whether that criterion is met; but

(b) economic compulsion on its own cannot create a present obligation—there is also the requirement for the obligation to have arisen from a past event (receiving economic benefits, or conducting activities, that establish the extent of the entity's obligation).

appropriately developed if and when the Board is developing an IFRS Standard for that type of transaction.

Further, the Board tentatively decided that, to clarify the meaning of the phrase 'as a result of past events' in the definition of a liability, the revised *Conceptual Framework* should:

(a) refer to an activity of the entity 'that will or may oblige it to transfer an economic resource that it would not otherwise have had to transfer', instead of the activity 'that establishes the extent' of the entity's obligation (as was proposed in the Exposure Draft).

(b) include clarification that the enactment of a law (or the introduction of some other enforcement mechanism, policy or practice, or the making of a statement) is not in itself sufficient to give an entity a present obligation. The entity must have conducted an activity to which a present law (or other present enforcement mechanism, policy, practice or statement) applies.

On 23 February 2017 the Board discussed minor comments received on concepts supporting the definitions of an asset and a liability. The Board noted that these comments either do not give rise to action or can be addressed in drafting.

Equity

The Exposure Draft defines equity as the residual interest in the assets of the entity after deducting all its liabilities. It proposes that:

(a) equity claims are claims against the entity that do not meet the definition of a liability;

(b) different equity claims convey to their holders different rights to, for example, receive some or all of the following:

   (i) dividends;

   (ii) the repayment of contributed equity on liquidation; or

   (iii) other equity claims;

(c) to provide useful information, it may be necessary to divide the total carrying amount of equity to reflect differences between equity claims; and

(d) the definition of equity applies to all types of entities.

On 22 September 2016 the Board tentatively decided to:

(a) maintain the binary distinction between liabilities and equity;

(b) define equity as 'the residual interest in the assets of the entity after deducting all its liabilities'; and

(c) include the discussion proposed in paragraphs 4.44–4.47 of the Exposure Draft to support that definition.

Definitions of income and expenses

The Exposure Draft proposes only minor changes to the definitions of income and expenses. The purpose of the changes would be to streamline the definitions and align the terminology with that proposed for the definitions of an asset and a liability. The proposed definitions are:

(a) income is increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from holders of equity claims; and

(b) expenses are decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims.

The Exposure Draft proposes to remove from the *Conceptual Framework* some accompanying discussion of specific types of income and expenses—namely gains, losses and revenue.

On 22 June 2016 the Board tentatively decided:

(a) to confirm that the definitions of income and expenses should be those proposed in the Exposure Draft; and

(b) not to include in the revised *Conceptual Framework* a discussion of the typical types of transactions and other events that may give rise to income and expenses.

The Board directed the staff to consider if the guidance supporting the definitions of income and expenses should cross-refer to the discussion of income and expenses elsewhere in the revised *Conceptual Framework*.

Other elements

The Exposure Draft does not propose to define any other elements, for example, elements for the statement of changes in equity or elements for the statement of cash flows.

Executory contracts

The Exposure Draft describes an executory contract as a contract that is equally unperformed: neither party has fulfilled any of its obligations, or both parties have fulfilled their obligations partially and to an equal extent.

The Exposure Draft proposes that:

(a) an executory contract establishes a right and an obligation to exchange economic resources;

(b) the right and the obligation to exchange economic resources are interdependent and cannot be separated. Hence, the combined right and obligation constitute a single asset (if the terms of the exchange are favourable) or a single liability (if the terms of the exchange are unfavourable);

(c) whether the asset or liability arising from an executory contract is included in the financial statements depends on both the recognition criteria and the measurement basis adopted for the contract; and

(d) to the extent that a party fulfils its obligation under the contract, the contract ceases to be executory.

On 18 October 2016 the Board tentatively decided:

(a) to confirm that:

  (i) an executory contract establishes a right and an obligation to exchange economic resources;

  (ii) the right and the obligation to exchange economic resources are interdependent and cannot be separated; and

  (iii) the combined right and obligation constitute a single asset or liability.

(b) the *Conceptual Framework* should contain no more discussion of recognition of executory contract assets and liabilities than was included in the Exposure Draft.

(c) none of the discussion about executory contracts included in the Basis for Conclusions on the Exposure Draft will be brought into the *Conceptual Framework* itself.

Unit of account

The Exposure Draft describes the unit of account as the group of rights, the group of obligations or the group of rights and obligations, to which recognition and measurement requirements are applied.

The Exposure Draft proposes that:

(a) a unit of account is selected for an asset or a liability after considering how recognition and measurement will apply, not only to that asset or liability, but also to the related income and expenses;

(b) the selected unit of account may need to be aggregated or disaggregated for presentation or disclosure purposes;

(c) in some cases, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement;

(d) the objective in selecting a unit of account is to provide the most useful information that can be obtained at a cost that does not exceed the benefits; and

(e) if an entity transfers part of an asset or part of a liability, the unit of account may change at that time so that the transferred component and the retained component become separate units of account.

In addition, the Exposure Draft discusses:

(a) examples of possible units of account; and

(b) how the objective of selecting a unit of account might be met.

The Basis for Conclusions on the Exposure Draft explains that the Board believes that the selection of a unit of account is a decision to be taken when developing individual IFRS Standards, not a decision that can be resolved conceptually for a broad range of IFRS Standards. However, in response to comments made on the Discussion Paper, the Exposure Draft provides a more detailed discussion than had been included in the Discussion Paper of the factors that the Board would need to consider when selecting a unit of account.

On 18 October 2016 the Board tentatively decided:

(a) provide no additional guidance on the unit of account and not reduce the discussion of the proposed concepts in the *Conceptual Framework*.

(b) clarify in the *Conceptual Framework* that the unit of account is selected for an asset or a liability when considering how recognition and measurement will apply.

(c) confirm that sometimes it may be appropriate to select one unit of account for recognition and another unit of account for measurement.

(d) confirm that the selected unit of account may need to be aggregated or disaggregated for presentation and disclosure.

(e) explain that, as with all other areas of financial reporting, cost constrains the selection of the unit of account, rather than identifying cost constraint as a distinct factor in selecting the unit of account.

Chapter 5—Recognition and derecognition

Recognition

The Exposure Draft proposes to define recognition as the process of capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of an element.

The existing *Conceptual Framework* specifies three recognition criteria that apply for the recognition of all assets and liabilities:

(a) the item meets the definition of an asset or a liability;

(b) it is probable that any future economic benefit associated with the asset or liability will flow to or from the entity; and

(c) the asset or liability has a cost or value that can be measured reliably.

However, existing IFRS Standards do not all apply these recognition criteria. Accordingly, the Exposure Draft proposes a new approach to recognition. It proposes that assets and liabilities (and any related income, expenses or changes in equity) should be recognised if such recognition provides users of financial statements with:

(a) relevant information about the asset or the liability and about any income, expenses or changes in equity;

(b) a faithful representation of the asset or the liability and of any income, expenses or changes in equity; and

(c) information that results in the benefits exceeding the cost of providing that information.

The supporting discussion identifies circumstances in which recognition may not provide relevant information. These circumstances include some cases in which:

(a) it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists;

(b) there is only a low probability that an inflow or outflow of economic benefits will result; or

(c) a measurement of an asset or a liability is available (or can be obtained), but the level of measurement uncertainty is so high that the resulting information has little relevance and no other relevant measure is available (or can be obtained).

On 18 July 2016 the Board tentatively confirmed the approach to recognition proposed in the Exposure Draft. This approach requires recognition decisions to be made by reference to the qualitative characteristics of useful financial information.

The Board further tentatively decided that:

(a) consistent with this approach, the revised *Conceptual Framework* should not prescribe a ‘probability criterion’, ie it should not prohibit the recognition of assets or liabilities with a low probability of an inflow or outflow of economic benefits;

(b) the concepts proposed in the Exposure Draft should be enhanced to provide more direction on the recognition of assets and liabilities with a low probability of inflows or outflows of economic benefits; and

(c) the revised *Conceptual Framework* should identify only two criteria for recognition—relevance and faithful representation. The need for benefits that exceed the costs should not be identified as a third distinct recognition criterion. Instead, the revised *Conceptual Framework* should explain that, as with all other areas of financial reporting, cost constrains recognition decisions and the benefits of the information provided to users of financial statements by recognition of an asset or a liability (and any related income, expenses or changes in equity) must be sufficient to justify the costs of providing that information.

Derecognition

The Exposure Draft describes derecognition as the removal of all or part of a previously recognised asset or liability from an entity’s statement of financial position. For an asset, this normally occurs when the entity loses control of all or part

On 14 December 2016 the Board tentatively decided to:

of the previously recognised asset; for a liability this normally occurs when the entity no longer has a present obligation for all or part of the previously recognised liability.

The Exposure Draft proposes that accounting requirements for derecognition should aim to represent faithfully both:

(a) the assets and liabilities retained after the transaction or other event that led to the derecognition (including any asset or liability acquired, incurred or created as part of the transaction or other event); and

(b) the change in the entity's assets and liabilities as a result of that transaction or other event.

The discussion in the Exposure Draft focusses on cases when the two aims conflict with each other. The Exposure Draft describes alternatives available and discusses what factors the Board would need to consider when developing or revising particular Standards.

The Exposure Draft also proposes guidance on how to account for modifications of contracts. In particular, the Exposure Draft states that the accounting may differ depending on whether the rights and obligations that are added by a modification of a contract are distinct from those created by the original terms of the contract.

(a) confirm the derecognition concepts proposed in paragraphs 5.25–5.32 of the Exposure Draft.

(b) retain the discussion of contract modifications in paragraphs 5.33–5.36 of the Exposure Draft. However, when considering whether new rights and obligations added by a contract modification should be accounted for as new assets or liabilities, the notion that those rights and obligations should be 'distinct' as proposed in the Exposure Draft will be replaced with a reference to the concepts on the unit of account.

Chapter 6—Measurement

Measurement bases and the information that they provide

The Exposure Draft says that consideration of the objective of financial reporting and the qualitative characteristics and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense. It then discusses measurement bases under the headings of historical cost and current value (fair value; and value in use (for assets) and fulfilment value (for liabilities)).

The Exposure Draft describes cash-flow-based measurement techniques as means of estimating the measure of an asset or liability on a defined measurement basis, rather than a separate category of measurement basis. These techniques are not therefore described in the body of the Exposure Draft; instead, they are briefly discussed in an Appendix.

On 20 April 2016 the Board tentatively rejected the idea of publishing the *Conceptual Framework* without a chapter on measurement, and undertaking a research project to develop material that could be added to the *Conceptual Framework* at a later date.

The Board directed the staff to improve the discussion on measurement in the light of responses to the Exposure Draft.

On 18 July 2016 the Board tentatively decided that, consistent with the proposals in the Exposure Draft, a revised *Conceptual Framework* should include a description of the information provided by the current cost and a discussion of the advantages and disadvantages of current cost, but that this should be placed under the heading of current value rather than historical cost.

On 14 December 2016 the Board discussed a revised draft of the introduction and the 'measurement bases and the information that they provide' sections of Chapter 6—*Measurement*.

The Board agreed with the approach taken in the revised draft and made several comments to be considered in finalising the text of the revised *Conceptual Framework*.

On 23 February 2017 the Board tentatively decided that the revised *Conceptual Framework* would include main points from an appendix that describes cash-flow-based measurement techniques.

Factors to consider when selecting a measurement basis

The Exposure Draft discusses factors related to selecting a measurement basis for an asset or a liability and the related income and expenses. It notes that the relative importance of each of the factors will depend upon facts and circumstances.

The factors are discussed by reference to the qualitative characteristics of financial information: relevance, faithful representation and the enhancing qualitative characteristics of comparability, verifiability and understandability. The Exposure Draft states that timeliness had no specific implications for measurement. It also notes that the selection of a measurement basis is constrained by cost.

Factors important for relevance that are identified in the Exposure Draft are:

(a) how the asset or liability contributes to cash flows, which depends, in part, on the nature of the business activities conducted by the entity;

(b) the characteristics of the asset or the liability, including variability in cash flows and the sensitivity of value of the item to changes in market factors or other risks; and

(c) the level of measurement uncertainty. This does not prevent the use of estimates, but may suggest that a different measurement basis may provide more relevant information.

The Exposure Draft suggests that faithful representation does not require that measures must be perfectly accurate in all respects, and that a faithful representation might require a similar measurement basis to be used for related assets and liabilities in order to avoid an accounting mismatch.

The Exposure Draft argues that initial and subsequent measurement could not be considered separately, because a consistent measurement basis is necessary to avoid reporting income or expenses solely as a result of a change in measurement basis.

On 18 July 2016 the Board directed the staff to present at a future Board meeting, a revised discussion about how selecting a measurement basis might be influenced by:

(a) the characteristics of an asset or a liability (including variability of cash flows and sensitivity of the value of the item to changes in market or other factors); and

(b) how an asset or a liability contributes to future cash flows. In particular, the staff will consider a distinction between items that contribute directly and indirectly to cash flows, and the rationale for the classification and measurement requirements in IFRS 9 *Financial Instruments*.

The Board also tentatively decided to retain the proposed discussion of faithful representation and the enhancing qualitative characteristics, but not to attempt to provide examples of their implications in specific cases.

On 14 December 2016 the Board discussed a revised draft of the section on the 'factors to consider when selecting a measurement basis' — relevance; faithful representation and the enhancing qualitative characteristics.

The Board agreed with the approach taken in the revised draft and made several comments to be considered in finalising the text of the revised *Conceptual Framework*.

On 18 January 2017 the Board considered revisions to the Exposure Draft's discussion of 'factors specific to initial measurement'. It directed the staff to consider the following when redrafting:

(a) using alternative wording to replace 'exchanges of items of similar value', such as 'market transactions';

The Exposure Draft also discusses additional factors specific to initial measurement, including:

(a) exchanges of items of similar value.

(b) transactions with holders of equity claims.

(c) exchange of items of different value.

(d) internal construction of an asset.

(b) whether initial measurement should be discussed only in relation to such transactions; and

(c) whether the discussion of transactions with holders of equity, in their capacity as such, should address the situation where a liability to make distributions is incurred.

In addition, the revised *Conceptual Framework* will exclude the discussion of internally constructed assets that was provided in the Exposure Draft.

More than one relevant basis

The Exposure Draft states that:

(a) more than one measurement basis might be needed to provide relevant information about an asset, liability, income or expense.

(b) in most cases the most understandable way to provide that information is by:

  (i) using a single measurement basis both in the statement of financial position and in the statement(s) of financial performance; and

  (ii) disclosing in the notes to the financial statements additional information using the other measurement basis.

(c) in some cases, because of the way in which an asset or a liability contributes to future cash flows (which depends in part on the nature of the business activities conducted by the entity) or because of the characteristics of the asset or the liability, the information provided in the financial statements is made more relevant by using:

  (i) a current value measurement basis for the asset or the liability in the statement of financial position; and

  (ii) a different measurement basis to determine the related income or expenses in the statement of profit or loss with the remaining income or expense in other comprehensive income.

On 18 January 2017 the Board tentatively decided that the revised *Conceptual Framework* would:

(a) state that more than one measurement basis might sometimes be selected to provide information about an asset, liability, income or expenses as proposed in the Exposure Draft; and

(b) require that both the relevance and faithful representation of information about an asset, liability, income or expenses are considered when more than one measurement basis is selected.

The Board also tentatively decided to clarify that selecting different measurement bases for an asset or a liability in the statement of financial position and for the related income or expenses in the statement of profit or loss is an example of classifying income and expenses in the statement of profit or loss and in the statement of other comprehensive income. The Board's decision to provide such a clarification was in response to requests made by some respondents to clarify the interaction between the proposals on more than one measurement basis and other aspects of the revised *Conceptual Framework*, such as the definitions of income and expenses and providing information about financial performance.

Measurement of equity

The Exposure Draft proposes that:

On 22 September 2016 the Board tentatively decided to include the discussion proposed in paragraphs 6.78–6.80 of the Exposure Draft about the measurement of equity in the chapter that includes the definition of equity.

(a) total equity is not measured directly; instead it equals the total of the carrying amounts of all recognised assets less the total carrying amounts of all recognised liabilities.

(b) the objective of general purpose financial statements is not to show an entity's value; consequently, total equity will not generally equal the market value of the entity's equity.

(c) although total equity is not measured directly, some individual classes or categories of equity may be measured directly.

The Basis for Conclusions explains that, although total equity is not measured directly, it may be necessary to measure individual classes or categories of equity directly to provide useful information.

Chapter 7—Presentation and disclosure

The Exposure Draft includes high-level concepts that describe what information is included in the financial statements and how that information should be presented and disclosed. The Board states that it will seek to develop the concepts proposed in the Exposure Draft and provide additional guidance on presentation and disclosure in the Disclosure Initiative.

The Exposure Draft proposes that the scope of information provided in financial statements is determined by their objective. Some of this information is provided by the recognition of items that meet the definition of an element in the statements of financial position and financial performance. Financial statements also provide additional information about recognised items and items that meet the definition of an element but that have not been recognised, and the risks arising from them.

Forward-looking information about likely or possible future transactions and events is included in financial statements only if that information is relevant to understanding the entity's assets, liabilities and equity that existed at the end of, or during, the period (even if they are unrecognised), or income and expenses for the period. Information about transactions or events that occur after the balance sheet date is included if that information is necessary to meet the objective of financial statements.

The Exposure Draft also discusses presentation and disclosure as communication tools. It proposes that efficient and effective communication includes:

(a) classifying information in a structured manner that reports similar items together and dissimilar items separately;

On 22 September 2016 the Board tentatively decided to:

(a) confirm that the objective of the financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

(b) describe the objective of the financial statements as a whole, rather than describing objectives of the financial statements' components.

(c) describe the scope of the financial statements by reference to their objective.

(d) identify no 'primary financial statements' and refrain from discussing the relationship between those statements and 'the notes'.

(e) refer only to the statement of financial position and the statement(s) of financial performance in the *Conceptual Framework*, and refrain from making any explicit references to the statement of cash flows and the statement of changes in equity.

(f) make no distinction between the terms 'present' and 'disclose' in the *Conceptual Framework*.

(b) aggregating information so that it is not obscured by unnecessary detail; and

(c) using presentation and disclosure objectives and principles instead of rules that could lead to a purely mechanistic compliance.

Information about financial performance

The Exposure Draft proposes that income and expenses are classified into the statement of profit or loss or other comprehensive income (OCI). The Exposure Draft does not specify whether the statement(s) of financial performance comprise a single statement or two statements.

The Exposure Draft does not propose to define profit or loss. Instead, it proposes to describe the statement, or section, of profit or loss as the primary source of information about an entity's financial performance for the period, and to require a total or subtotal for profit or loss to be provided. The Exposure Draft also proposes that the purpose of the statement of profit or loss is to:

(a) depict the return that an entity has made on its economic resources during the period; and

(b) provide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources.

Because income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period, the Exposure Draft proposes a presumption that all income and all expenses will be included in that statement. It proposes that income or expenses could be reported outside the statement of profit or loss and included in OCI only if:

(a) the income or expenses relate to assets or liabilities measured at current values; and

(b) excluding those items from the statement of profit or loss would enhance the relevance of the information in the statement of profit or loss for the period.

The Exposure Draft proposes to describe the types of income and expenses for which this presumption cannot be rebutted.

Because income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period, the Exposure Draft also proposes a presumption that income or expenses included in OCI in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period. The Exposure Draft

On 20 April 2016 the Board tentatively decided to provide high-level guidance on reporting financial performance in the *Conceptual Framework*. Such guidance will be based on the proposals in the Exposure Draft, modified in light of the feedback received on the Exposure Draft.

On 22 June 2016 the Board tentatively decided that the revised *Conceptual Framework* would:

(a) describe the statement of profit or loss as the primary source of information about an entity's financial performance for the period but would not set out the purpose of that statement.

(b) set out a principle that income and expenses should be included in the statement of profit or loss unless the relevance or faithful representation of the information provided in the statement of profit or loss for the period would be enhanced by including a change in the current value of an asset or a liability in OCI. This principle would replace the rebuttable presumption about the use of the statement of profit or loss proposed in the Exposure Draft. The revised *Conceptual Framework* would state that this is only expected to occur in exceptional circumstances.

(c) state that a decision about including income and expenses in OCI can be made only by the Board in setting Standards. In making such a decision the Board would need to explain why excluding a change in the current value of an asset or a liability from the statement of profit or loss for the period would enhance the relevance or faithful representation of the information provided in that statement.

(d) state that in principle, income and expenses included in OCI should be recycled when doing so would enhance the relevance or faithful representation of the information in the statement of profit or loss for that period. This principle would replace the rebuttable presumption about recycling proposed in the Exposure Draft.

(e) state that income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur or the amount that should be recycled to enhance the relevance or proposes that this presumption could be rebutted, for example, if there is no clear basis for identifying the period in which that reclassification would enhance the relevance of the information in the statement of profit or loss. If there is no such basis, it may indicate that the income or expense should not be included in OCI.

faithful representation of information provided in the statement of profit or loss for that period.

(f) state that a decision about whether and when income and expenses included in OCI should be recycled can be made only by the Board in setting Standards. In making such a decision the Board would need to explain why recycling would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period.

The Board also tentatively decided to remove the statement in the Exposure Draft that an inability to identify a clear basis for recycling may indicate that such income or expenses should not be included in OCI.

Chapter 8—Concepts of capital and capital maintenance

The Exposure Draft includes a discussion of capital maintenance that was substantially unchanged from the existing *Conceptual Framework*. The summary and invitation to comment explains that the Board would consider revising the *Conceptual Framework* discussion of capital maintenance if it were to carry out future work on accounting for high inflation, and that no such work is currently planned.

On 14 December 2016 the Board tentatively decided to:

(a) carry forward to the revised *Conceptual Framework* the existing chapter on capital and capital maintenance; and

(b) introduce that chapter with an explanatory statement in the revised *Conceptual Framework*. This introduction will state that the chapter represents the remaining text of the *Framework for the Preparation and Presentation of Financial Statements* and has not been updated in the *Conceptual Framework* project.

Other topics

Business activities

In developing the Exposure Draft, the Board formed the view that the nature of an entity's business activities plays different roles in different aspects of financial reporting. Accordingly, the Exposure Draft does not include a general discussion on the role of a business model in financial reporting, but discusses how the way in which an entity conducts its business activities may affect:

(a) the unit of account;

(b) measurement; and

(c) presentation and disclosure, including how to classify assets, liabilities and items of equity, income and expenses. Classification of items of income and

On 14 December 2016 the Board tentatively decided to confirm the approach to business activities proposed in the Exposure Draft. Specifically, the revised *Conceptual Framework* will discuss how the way in which an entity conducts its business activities may affect decisions about the unit of account, measurement, and presentation and disclosure, but will not introduce business activities as an overarching concept that affects all areas of financial reporting.

expenses includes determining whether to include them in other comprehensive income instead of in the statement of profit or loss.

The Board did not identify any situations in which consideration of an entity's business activities would be relevant to the recognition of assets and liabilities and noted that it is performing further research on the distinction between liabilities and equity.

The Exposure Draft does not use the term 'business model' because this term is used with different meanings by various organisations.

Long-term investment

The Exposure Draft does not include a specific discussion about:

(a) long-term investment (or financing) *by* the reporting entity, or

(b) the information needs of long-term investors *in* the reporting entity.

However, the Basis for Conclusions on the Exposure Draft includes a discussion of the implications of long-term investment for Standard-setting. That discussion states that:

(a) the proposals in the Exposure Draft provide sufficient tools for the Board to make appropriate Standard-setting decisions if future projects consider:

  (i) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or

  (ii) whether such entities should report changes in the carrying amount of those investments (or liabilities) in the statement of profit or loss or other comprehensive income.

(b) the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting, to address appropriately the needs of long-term investors.

The Board noted that:

(a) referring explicitly to any particular business activity would, inappropriately, embed Standards-level detail in the *Conceptual Framework*;

(b) the proposed changes to the objective of financial reporting clarify the need to provide information that helps investors to assess management's stewardship of the entity's resources;

(c) the Board's decisions (including decisions on measurement) are driven by an assessment of what information would be useful to all investors; and

On 14 December 2016 the Board tentatively decided to confirm the approach to long-term investment as proposed in the Exposure Draft. Specifically, the revised *Conceptual Framework* will not:

(a) comment on long-term investment as a business activity because discussion of implications of any particular type of business activity is most appropriately developed in individual Standards, rather than generically in the revised *Conceptual Framework*;

(b) include specific measurement or presentation concepts related to long-term investment because the revised *Conceptual Framework* will provide sufficient concepts to assist the Board in making appropriate Standard-setting decisions on measurement and presentation, including decisions for long-term investments; and

(c) supplement the discussion of the information needs of the primary users of financial statements with further discussion of the information needs of long-term investors in the reporting entity because the revised *Conceptual Framework* will provide sufficient concepts for the Board to address appropriately the needs of all primary users of financial statements, including long-term investors.

(d) it is not the role of accounting Standards to encourage or discourage investments that have particular characteristics.

Effects of proposed changes to the *Conceptual Framework*

The Basis for Conclusions on the Exposure Draft:

(a) explains that the Board had reviewed existing and proposed Standards to identify any inconsistencies with the proposals for a revised *Conceptual Framework* to enable constituents to better understand the implications of the proposals;

(b) identifies the following main inconsistencies:

   (i) some of the classification requirements in IAS 32 *Financial Instruments: Presentation*; and

   (ii) the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as interpreted in IFRIC 21 *Levies*.

(c) identifies a number of minor inconsistencies;

(d) proposes that the Board and the IFRS Interpretations Committee should start using the revised *Conceptual Framework* immediately once it is published.

On 23 February 2017 the Board tentatively decided that the work assessing the effects of the revised *Conceptual Framework* is sufficient.

The Board also tentatively decided that the Board and the IFRS Interpretations Committee will start using the revised *Conceptual Framework* as soon as it is issued.

A separate Exposure Draft *Updating References to the Conceptual Framework* ('the *Updating References* Exposure Draft') proposes the replacement of references to the *Framework for the Preparation and Presentation of Financial Statements* ('the *Framework*') within two Standards—IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—with references to the revised *Conceptual Framework*. The *Updating References* Exposure Draft explains that this replacement would achieve transition to the revised *Conceptual Framework* for entities that use the *Conceptual Framework* to develop accounting policies.

To avoid having concurrent versions of the *Conceptual Framework*, the *Updating References* Exposure Draft also proposes to replace references to the *Framework* in some other Standards and Interpretations. It explains that the Board believes that these changes will not have a significant effect on the requirements of these Standards.

For all these changes, the *Updating References* Exposure Draft proposes to set an effective date that would allow a transition period of approximately 18 months between the issue of the revised *Conceptual Framework* and the effective date for each of the amendments proposed by the *Updating References* Exposure Draft. This

On 18 January 2017 the Board tentatively decided to retain:

(a) the reference to the *Framework* in paragraph 11 of IFRS 3 *Business Combinations* and start a project to make a narrow-scope amendment to that Standard. Any such narrow-scope amendment would allow the replacement of the reference to the *Framework* in a way that would prevent unintended consequences.

(b) the existing description of the assumed characteristics of users of financial statements and delete the reference to the *Framework* in paragraph 7 of IAS 1 *Presentation of Financial Statements*, paragraph 6 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and paragraph IG16 of IFRS 4 *Insurance Contracts*.

Further, the Board tentatively decided to confirm the proposals in the Updating References Exposure Draft to:

(a) replace the references to the *Framework* with references to the *Conceptual Framework* and update related quotations in IAS 8, IFRS 2 *Share-based Payment*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 1, would allow entities to review the effects of the revised concepts on their accounting policies and prepare for application of changes. Early application would be permitted.

The *Updating References* Exposure Draft proposes that the amendments would be applied retrospectively in accordance with IAS 8, except for the proposed amendments to IFRS 3 *Business Combinations*. Amendments to IFRS 3 would be applied prospectively, thereby avoiding the need to restate previous business combinations.

IAS 34 *Interim Financial Reporting* and SIC-32 *Intangible Assets—Web Site Costs*.

(b) remove clarifying footnotes added after the revisions to the *Conceptual Framework* in 2010.

The Board also tentatively decided to modify the requirement for retrospective application proposed in the Updating References Exposure Draft. Revised accounting policies will have to be applied retrospectively unless retrospective application would involve undue cost and effort. These transition provisions will be included in amendments to IAS 8, IFRS 2, IFRS 6, IAS 1, and IAS 34.

Further, the Board tentatively confirmed the proposals in the Updating References Exposure Draft that:

(a) the amendment to paragraph 11 of IAS 8 will be applied to both existing and new accounting policies, except for a possible temporary relief for rate-regulated entities that will be discussed at a future Board meeting.

(b) a transition period of approximately 18 months will be set for the proposed amendments.

On 21 March 2017 the Board tentatively decided that:

(a) the amendment to paragraph 11 of IAS 8 will not apply to accounting policies for regulatory account balances. Instead, entities that develop accounting policies for regulatory account balances by reference to the *Framework for the Preparation of the Financial Statements* will be required to continue doing so until they apply the future Standard on rate-regulated activities.

(b) the prohibition from applying the amendment to paragraph 11 of IAS 8 to accounting policies for regulatory account balances will apply both to existing and new accounting policies.

(c) a regulatory account balance will be defined as the balance of any expense (or income) account that:

    (i) is not recognised as an asset or a liability in accordance with IFRS Standards; and

    (ii) is included, or is expected to be included, by the rate regulator as defined in IFRS 14 *Regulatory Deferral Accounts* in establishing the rate(s) that can be charged to customers.