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Conceptual Framework Project Update

Objective

- 1 The objective of this session is to provide an update on the Conceptual Framework project and ask whether EFRAG TEG has any concerns regarding the development.

Background

- 2 Following its Agenda Consultation 2011, the IASB decided to restart its work on the Conceptual Framework. In July 2013, the IASB issued its Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*. This was followed by the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* which was issued on 29 May 2015 ('the ED'). EFRAG submitted its comment letter in response to the ED on 23 December 2015. The IASB is expected to issue the revised Conceptual Framework in 2017.
- 3 The revised Conceptual Framework is not subject to endorsement within the EU. However, a related proposal to update references in the current Standards to the revised Conceptual Framework will be subject to endorsement.
- 4 At its May to October 2016 meetings, the IASB considered possible amendments to:
 - (a) Chapter 1 - *The objective of general purpose financial reporting* and Chapter 2 - *Qualitative characteristics of useful financial information*;
 - (b) The definition of 'materiality';
 - (c) Asymmetry in treating gains and losses (prudence);
 - (d) The guidance on the reporting entity;
 - (e) The definitions of an asset, an economic resource and the accompanying guidance;
 - (f) The guidance on income and expenses;
 - (g) The definition of equity and supporting discussion;
 - (h) The guidance on executory contracts;
 - (i) The guidance on the unit of account;
 - (j) The guidance on recognition;
 - (k) The guidance on presentation and disclosure; and
 - (l) The guidance on presenting information about financial performance.
- 5 The IASB's tentative decisions on these issues were considered by EFRAG TEG at its May to November 2016 meetings.

- 6 A summary of the IASB's tentative decisions from May to November 2016 and the comments EFRAG made in its comment letter in response to the ED are included in the Appendix.

The tentative decisions made by the IASB at its November and December 2016 meetings

- 7 The IASB discussed the following issues at its November and December 2016 meetings:
- (a) Effects of the proposed changes to the Conceptual Framework on preparers;
 - (b) Measurement;
 - (c) Business activities and long-term investment;
 - (d) Concepts of capital and capital maintenance; and
 - (e) Derecognition.

The IASB's decisions on these issues are considered in the paragraphs below.

- 8 At its November 2016 meeting, the IASB also discussed the definition of a liability and supporting guidance. The IASB's decisions on these topics were, however, considered at the 23 November 2016 EFRAG CFSS and EFRAG TEG meeting. The topics are accordingly not re-addressed in the paragraphs below (but in the Appendix).
- 9 At the 23 November 2016 EFRAG CFSS and EFRAG TEG meeting, the concepts of capital and capital maintenance were also discussed. However, as the IASB did not consider these issues until December 2016, the IASB's tentative decisions on the concepts of capital and capital maintenance are discussed below.

Effects of the proposed changes to the Conceptual Framework on preparers

- 10 At its November 2016 meeting, the IASB discussed the results of an IASB staff analysis on whether, and if so how, preparers' accounting policies would be affected by replacing references to the *Framework for the Preparation and Presentation of Financial Statements* with references to the *Conceptual Framework for Financial Reporting* in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This change was proposed in the IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*. Preparers could be affected by updating the reference as entities that develop particular accounting policies on the basis of paragraph 11 (b) of IAS 8¹ may need to update these policies to reflect the revised concepts in the Conceptual Framework.
- 11 In its comment letter in response to the Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*, EFRAG assessed that it would likely be impractical to apply the changes retrospectively. The reason is that paragraph 11(b) of IAS 8 is considered after, and possibly together with the requirements of IFRSs dealing with similar and related issues (paragraph 11 (a) of IAS 8). EFRAG further noted that the IASB did not appear to be intending to update paragraph 11 (a) of IAS 8 in the same time frame.

¹ Paragraph 11 of IAS 8 states that when the management has to make judgement in the absence of an IFRS that specifically applies to a transaction, other event or condition, it shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRSs dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

- 12 EFRAG was also concerned about the proposed retrospective application of the amendment, as this would require an entity to account for the facts and circumstances as if the amended guidance existed when the accounting policy under consideration was developed.
- 13 As a result, EFRAG considered that an effects analysis needed to be performed in order to understand the impact of the amendments, to assess their practicability and to weigh their benefits against their costs.
- 14 The IASB staff analysis suggested that the scope of any changes to preparers' accounting policies as a result of replacing the references is likely to be limited as:
- (a) Most preparers do not develop accounting policies by reference to the Conceptual Framework because most transactions are:
 - (i) Covered by the existing IFRS Standards; or
 - (ii) Accounted for based on other sources referred to in IAS 8 (mostly US GAAP); or
 - (iii) Exempted from applying paragraph 11 of IAS 8 as some IFRS Standards specifically exempt preparers from applying paragraph 11 of IAS 8 in developing some accounting policies; and
 - (b) In some areas the revised concepts will suggest similar accounting outcomes to the existing concepts.
- 15 The IASB staff carried out its analysis by identifying which accounting policies are developed by reference to the Conceptual Framework on the basis of the requirements in IAS 8. This was done by:
- (a) Reviewing the scope exclusions in IFRS Standards; and
 - (b) Reaching out to preparers and accounting firms to understand whether and when in practice entities develop their accounting policies by reference to the Conceptual Framework. The IASB staff requested information from:
 - (i) Preparers and preparer representative bodies, including (i) those who responded to the ED and the Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* (ii) members of the Global Preparers Forum; and
 - (ii) A sample of international accounting firms.
- The IASB asked the respondents whether they had used the Conceptual Framework as a guide in developing accounting policies. If they had, they were asked to describe the accounting policies that had been developed and what concepts of the Conceptual Framework they had used for the development.
- Information from 73 organisations was requested and responses were received from 29 (5 from accounting firms, 16 from preparers and 8 from preparer representative bodies – 5 respondents were from Europe and 10 were international).
- 16 The IASB did not make any decisions at its November meeting in relation to this issue. However, IASB members generally thought that the analysis of the IASB staff made it possible to assess the impact of replacing the references.

Measurement

- 17 The IASB has not finalised its work on the chapter in the Conceptual Framework on measurement. However, it has discussed measurement issues at several meetings

(including its December 2016 meeting). The following paragraphs include the tentative decisions of the IASB on:

- (a) Issues where EFRAG expressed concern in its comment letter in response to the ED; and
- (b) Other issues.

Issues considered by EFRAG

- 18 In its comment letter in response to the ED, EFRAG agreed with many of the proposals included in the ED on measurement. However, EFRAG:
 - (a) Considered that the Conceptual Framework should consider the possible use of market-consistent measurement bases other than fair value;
 - (b) Assessed that the guidance on how to select measurement bases was insufficient;
 - (c) Read the ED as saying that the use of different measurement bases for the statement of the financial position and the statement of profit or loss should be an exception. EFRAG thought that such a statement was premature as the IASB had not clarified the objectives of the statement of profit or loss.
- 19 The developments on these issues are summarised in the paragraphs below.

POSSIBLE USE OF MARKET-CONSISTENT MEASUREMENT BASES OTHER THAN FAIR VALUE

- 20 At its July 2016 meeting, the IASB decided that the discussion of current cost should be retained, but repositioned from the section on historical cost into the discussion of current values. Current value would thus include: fair value, value in use (for assets), fulfilment value (for liabilities) and current cost.
- 21 In an IASB staff suggestion for the December 2016 IASB meeting, current cost was described as reflecting values in the market in which the entity acquires the asset or incurs the liability. It was described as being different from fair value as fair value is an exit value.
- 22 The IASB staff draft also presented the information provided by current cost and some problems primarily related to complexity and subjectivity of using current cost as a measurement bases. At the December 2016 IASB meeting, the IASB staff was instructed to present the qualities of current cost slightly less positively than in its draft. The wording will accordingly be amended. Nevertheless, if the approach of the IASB staff is reflected in the Conceptual Framework, the EFRAG Secretariat assesses that the concern expressed in EFRAG's comment letter on other market consistent measurement bases will be addressed.

SUFFICIENT GUIDANCE ON HOW TO SELECT MEASUREMENT BASES

- 23 The IASB has tentatively decided to include more guidance on how to select measurement bases to address the concern of EFRAG (and other constituents – although some constituents warned against including too much guidance). For the December 2016 IASB meeting, the IASB staff had prepared a suggestion for this guidance.
- 24 Firstly, the IASB staff had extended the description of information provided by different measurement bases. As IASB members had several comments on this description, it is uncertain how the final wording will be.

- 25 Secondly, the IASB staff had extended the guidance on factors to consider when selecting a measurement basis. Most noticeable, guidance on relevance had increased (the paragraphs on faithful representation were brought forward from the ED). The guidance on relevance suggested that:
- (a) The relevance of a measurement basis depends on the characteristics of the asset or liability, in particular, whether the cash flows are highly variable, or the value is sensitive to market factors or other risks.
 - (i) If the cash flows of a financial asset or financial liability are variable—particularly if they comprise more than principal and interest—amortised cost may not provide relevant information. Amortised cost allocates interest revenue or expense to the relevant period, based on contractual cash flows. If the cash flows of a financial asset or financial liability are variable, use of amortised cost is complex and may be costly.
 - (ii) If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might be significantly different from its current value at the reporting date. That current value of assets or liabilities may provide information that is more relevant than historical cost for user’s assessment of the following features:
 - The reporting entity’s financial strengths and weaknesses;
 - The entity’s liquidity and solvency;
 - The entity’s need for additional financing and how successful it is likely to be in obtaining that financing; and
 - Management’s stewardship of the reporting entity’s economic resources.
 - (b) How economic resources generate cash flows depends, in part, on the nature of the business activities conducted by the entity.
 - (i) For assets and liabilities that produce cash flows directly, such as assets that can be sold independently, without a significant economic penalty, a measurement basis that reflects the present value of the future cash flows: that is, fair value or value in use (for liabilities, fulfilment value) is likely to be relevant.
 - (ii) When a business activity involves the use of several resources that generate cash flows indirectly, by being used in combination to produce and market goods or services to customers, a cost-based measurement basis is likely to provide relevant information. The expense reported will then reflect the cost of assets consumed in a period, and a comparison of that expense with the revenue of the period provides information on the margins achieved in the period. Information about margins can be used as some of the inputs needed to predict future margins and hence in assessing the entity’s prospects for future cash flows. Often an entity cannot sell assets held for use in such an activity without a significant economic penalty, and its inventory typically cannot be sold to a customer, except by using other resources in the entity’s production and marketing activities. Where these activities are significant, cost-based information, which reports the cost of consumption and the margin made on sales of products or services, may be more relevant than fair value which reflects the amount that would be received on a transaction that is unlikely to take place.

- (iii) Where assets and liabilities are held as part of a business activity that is managed with a view to collecting contractual cash flows, a cost-based measurement basis may provide relevant information on the margin between the contractual yield and the entity's cost of borrowing. However, if the cash flows of a financial asset or financial liability are changed by factors other than principal and interest, the reported margin on an amortised cost basis would include the effect of those other changes, which may make it less relevant.

26 IASB members had some comments to the guidance, and the final guidance may therefore deviate from the text reproduced above. The EFRAG Secretariat is therefore currently unable to assess whether EFRAG's concern on the guidance on selecting a measurement basis will be addressed.

THE USE OF DIFFERENT MEASUREMENT BASES

27 The IASB has not yet discussed the section on the use of different measurement bases. It is expected that it will be discussed at the January 2017 IASB meeting.

Other issues

28 In addition to the areas summarised above, the IASB staff suggested to:

- (a) Include an introduction clarifying that the IASB would not have to stick to 'clean' versions of the measurement bases included in the Conceptual Framework when setting Standards. IFRS Standards may explain the techniques to be used for implementing measurement bases. This paragraph would replace the discussions in the ED on:
 - (i) The customisation of value in use and fulfilment value; and
 - (ii) The effect of risk premiums and their reversal.
- (b) Divide the section in the ED entitled 'Measurement bases and the information that they provide' into two sections: 'Measurement bases' (which should provide a brief description of the various measurement bases), and the second 'Information provided by different measurement bases' (which should discuss the information provided by each basis).
- (c) Move the discussion of aspects such as complexity and subjectivity to an expanded final section on the enhancing qualitative characteristics, which would be re-titled 'Enhancing qualitative characteristics and the cost constraint'.
- (d) Relocate the discussion on measurement uncertainty to the discussion of faithful representation with consequential changes. This change was made as the IASB in May 2016, in conformity with EFRAG's comments, decided that measurement uncertainty should be considered in relation to faithful representation rather than in relation to relevance.

Business activities and long-term investment

Business activities

29 The IASB tentatively decided to confirm the approach to business activities proposed in the ED. This means that 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.

- 30 In its comment letter in response to the ED, EFRAG expressed the view that the Conceptual Framework should better reflect how the business activities – or the business model (as EFRAG preferred it to be termed) - would be considered in relation to these topics.
- 31 In addition, EFRAG thought that an entities business activities would play a role in relation to recognition. It noted that in some Standards executory contracts are recognised while they are not recognised in other Standards.
- 32 In the paper for the IASB meeting, the IASB staff suggested to clarify in the Basis for Conclusions on the revised Conceptual Framework that:
- (a) The notion of business activities in the Conceptual Framework is a broad concept intended to assist the IASB in setting Standards; and
 - (b) The notion of business model in IFRS 9 *Financial Instruments* is one example of how the IASB applied that concept in a particular standard-setting context.
- 33 The term ‘business model’ was not supported as:
- (a) Adopting the term could lead to confusion with the varying definitions used by various other organisations;
 - (b) The term ‘business model’ is often used to refer to a highly granular analysis of how the business operates. Such a granular analysis may be important for disclosure, but is much less likely to be appropriate for decisions about, for example, measurement. Adopting the term ‘business model’ in the revised Conceptual Framework could lead to a misperception that a similar level of granularity might be implied for all parts of the revised Conceptual Framework.
- 34 The EFRAG Secretariat accordingly assesses that the IASB’s tentative decisions do not address the concern expressed by EFRAG in relation to the section on business activities included in the Conceptual Framework.

Long-term investments

- 35 In relation to long-term investments, the IASB tentatively decided to confirm the approach of the ED. That is, the Conceptual Framework will not:
- (a) Comment on long-term investment as a business activity as the IASB considers that a discussion of implications of any business activity is most appropriately developed in individual Standards;
 - (b) Include specific measurement or presentation concepts related to long-term investment because the revised Conceptual Framework will provide sufficient concepts to assist the IASB 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 IASB considers that the revised Conceptual Framework will provide sufficient concepts for it to address appropriately the needs of all primary users of financial statements, including long-term investors.
- 36 It appears from EFRAG’s comment letter in response to the ED, that EFRAG would not agree that the revised Conceptual Framework would provide sufficient guidance

on how to reflect long-term investment business activities. To provide sufficient guidance, the IASB would, according to EFRAG's comment letter, have to develop additional guidance on the unit of account, measurement and presentation. While additional guidance may be developed on measurement, the IASB's tentative decisions reflect that the revised Conceptual Framework will not include significant additional guidance on the unit of account and presentation compared with the ED.

Concepts of capital and capital maintenance

- 37 The ED carried forward the guidance on capital and capital maintenance included in the current Conceptual Framework. The ED did not include any questions on the topic and EFRAG's comment letter in response to the ED did not provide a view on the issue. However, the IASB asked for comments on the chapter at the December 2016 ASAF meeting. In accordance with the input received at the November 2016 CFSS meeting, EFRAG replied that if the outdated chapter could not be updated, the preferred solution would be to remove it from the Conceptual Framework. Not all ASAF members shared this view.
- 38 Contrary to EFRAG's advice, the IASB has tentatively decided to carry forward the existing chapter but to include an explanatory statement saying 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.

Derecognition

- 39 The IASB tentatively decided to confirm the derecognition concepts proposed in the ED. In its comment letter in response to the ED, EFRAG agreed with the aim of derecognition as described in the ED. However, EFRAG was concerned that the guidance proposed was insufficient to ensure consistent standard-setting in the future. This concern will not be addressed by the IASB's tentative decisions. In a paper for the December 2016 meeting, the IASB staff noted that it is not possible to provide additional guidance as the most appropriate approach to derecognition will depend on the best way to achieve the two aims of derecognition, and it will also depend on the unit of account, and the measurement bases, of the items before and after the derecognition event. The particular approach to derecognition will accordingly be a Standards-level decision because of different units of account and measurement bases resulting from Standards-level requirements. As a result, whether, when, and how an entity derecognises an asset or a liability is closely linked to the accounting requirements applied to that previously recognised asset or liability.
- 40 The ED discussed contract modifications as a particular case in which questions about derecognition arise. The ED stated that a contract modification might reduce or eliminate existing rights and obligations and/or might add new rights or new obligations. Whether the rights and obligations that are added by a modification of a contract are treated as part of the same unit of account as the existing rights and obligations will depend on whether they are *distinct* from those created by the original terms of the contract. Some respondents to the ED thought that the 'distinct' notion was unclear or unhelpful. The IASB tentatively agreed and replaced the 'distinct' notion used in the ED with a reference to the concepts on the unit of account.

Next steps

- 41 At the January 2017 IASB meeting, the IASB staff plans to discuss:

- (a) Measurement; and
- (b) The Exposure Draft Updating References to the Conceptual Framework.

Questions for EFRAG TEG

42 Does EFRAG TEG:

- (a) Consider the study performed by the IASB staff on whether, and if so how, preparers' accounting policies would be affected by replacing references to the Conceptual Framework in IAS 8 (see paragraphs 10 - 16) to be sufficient for EFRAG TEG to:
 - (i) Understand the impact of the amendments;
 - (ii) Assess their practicability; and
 - (iii) Weigh their benefits against their costs?If not, does EFRAG TEG suggest any actions of the EFRAG Secretariat?
- (b) Disagree with the assessments of the EFRAG Secretariat that:
 - (i) A discussion of current cost as suggested by the IASB staff would address EFRAG's comment that the Conceptual Framework should consider the possible use of market-consistent measurement bases other than fair value (see paragraphs 20 - 22 above)?
 - (ii) It is currently not possible to assess whether the revised Conceptual Framework will provide sufficient guidance on the selection of measurement bases. However, the IASB is moving in a direction that seems to address the concern of EFRAG (see paragraphs 23 - 26 above)?
 - (iii) The IASB's tentative decisions on the concept of capital and capital maintenance are not in accordance with EFRAG's suggestions (as presented at the December 2016 ASAF meeting) (see paragraphs 37 - 38 above)?
 - (iv) The IASB's tentative decisions do not address the concern expressed by EFRAG in relation to the section on business activities included in the Conceptual Framework (see paragraphs 29 - 34 above)?
 - (v) The Conceptual Framework may not, in the view of EFRAG, provide sufficient guidance on how to reflect long-term investment business activities when setting Standards (see paragraphs 35 - 36 above)?
 - (vi) The Conceptual Framework may not, in the view of EFRAG, provide sufficient guidance on derecognition to ensure consistent standard-setting in the future (see paragraphs 39 - 40 above).
- (c) Have any concerns with the draft guidance on the selection of a measurement basis included in paragraph 25 above (the guidance will likely be amended, but if EFRAG TEG would already have some issues that should be monitored further, it would be beneficial for the EFRAG Secretariat to know).
- (d) Consider that it may be necessary to recommend the IASB to re-expose the chapter on measurement in the proposed revised Conceptual Framework to enable constituents to comment on the extended guidance? If so, under what circumstances would it be necessary to recommend re-exposure?

- (e) Have any concerns with the amendments to the chapter on measurement summarised under 'Other issues' in paragraph 28 above?

Appendix

EFRAF’s comments and the IASB’s tentative decisions

The ED	EFRAF view	Planned actions of the IASB
Purpose and status of the Conceptual Framework		
<p>The ED explained that the purpose of the Conceptual Framework is to:</p> <ul style="list-style-type: none"> (a) assist the IASB to develop IFRS Standards that are based on consistent concepts; (b) 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 (c) assist all parties to understand and interpret IFRS Standards. <p>The ED specified that the Conceptual Framework is not a Standard and does not override any specific Standards. The IASB may sometimes specify requirements that depart from aspects of the Conceptual Framework.</p> <p>The Conceptual Framework may be revised from time to time on the basis of the IASB’s experience of working with it.</p>	<p>EFRAF did not explicitly comment on the purpose and status of the Conceptual Framework in its comment letter in response to the ED (as the ED did not include a question on this). However, the discussions of EFRAF TEG and the EFRAF Board indicated that EFRAF broadly agreed with the ED on these issues.</p>	<p>At its April 2016 meeting, the IASB decided to confirm the proposal in the ED in relation to the purpose of the Conceptual Framework.</p> <p>At its April 2016 meeting, the IASB also decided to retain the existing status of the Conceptual Framework, and to confirm the proposal in the ED to explain any departures from aspects of the Conceptual Framework in the Basis for Conclusions accompanying the Standard in question.</p> <p>Finally, the IASB decided to confirm the proposal in the ED that the Conceptual Framework should state that it may be revised from time to time. However, the IASB decided not to include in the Basis for Conclusions examples of events and circumstances that could trigger a revision of the Conceptual Framework.</p>

The ED	EFRAG view	Planned actions of the IASB
Primary users		
<p>The ED referred to existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need as ‘primary users’.</p>	<p>EFRAG believed that the Conceptual Framework should acknowledge that if preparers would not find that a Standard results in useful information, this could indicate that the information would not be useful for existing and potential investors, lenders and other creditors.</p>	<p>At its May 2016 meeting, the IASB decided to retain the description of the primary user group.</p>
Stewardship		
<p>The ED gave more prominence to the objective of assessing stewardship when describing the objective of financial reporting than the existing Conceptual Framework. This was done by explicitly mentioning that existing and potential investors assess the management’s stewardship of the entity’s resources when making decisions about buying, selling or holding equity and debt instruments and providing or settling loans and other forms of credit. The ED did, however, not identify the provision of information to help assess management’s stewardship as an additional objective of financial reporting.</p>	<p>EFRAG welcomed the greater prominence given to the assessment of management’s stewardship in the ED. EFRAG, however, disagreed with the ED that the objective of assessing management’s stewardship should be included in a general objective of providing useful information to support decisions involving buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. EFRAG believed that existing investors could need information for the assessment of stewardship that would supplement the information useful to decisions on buying, selling or holding equity and debt instruments.</p> <p>EFRAG also believed that the Conceptual Framework should describe the implications</p>	<p>At its May 2016 meeting the IASB decided to explain how the assessment of stewardship relates to the resource allocation decisions of an entity by stating that 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 about providing resources to the entity include:</p> <ul style="list-style-type: none"> (a) decisions to buy, sell or hold equity and debt instruments; (b) decisions to provide or settle loans and other forms of credit; and

The ED	EFRAG view	Planned actions of the IASB
	of the stewardship objective for standard setting.	<p>(c) decisions to exercise other rights, such as rights to vote on or otherwise influence management's actions.</p> <p>The IASB decided to (briefly) explain what stewardship is (i.e. management of resources entrusted to one) in the Basis for Conclusions. In addition, the Conceptual Framework should explain that in some cases the assessment of stewardship may require additional information to the information needed for making buying, holding and selling decisions. The reference to stewardship in the Conceptual Framework would thus result in additional information, but not more use of cost based measurements.</p>
Prudence		
<p>The ED reintroduced an explicit reference to the notion of prudence. Prudence was described in relation to neutrality as the exercise of caution when making judgements under conditions of uncertainty. It was explained that the exercise of prudence supports neutrality and should not allow the overstatement or understatement of assets, liabilities, income or expenses.</p>	<p>EFRAG welcomed that the ED re-introduced prudence and with the judgement of the IASB in the Basis for Conclusions that prudence may lead to asymmetry in the recognition of assets/income and liabilities/expenses without introducing any undesirable bias in financial reporting. These conclusions should, however, be acknowledged in the Conceptual Framework itself. Also, prudence should not be made subservient to neutrality. Finally, the Conceptual Framework should</p>	<p>At its May 2016 meeting, the IASB reconfirmed referring to prudence as the exercise of caution when making judgements under conditions of uncertainty. The IASB also decided against stating in the basis for conclusions that prudence cannot be used by preparers to override the requirements in the Standards because the Conceptual Framework already includes a statement that it is not a Standard and does not override any specific Standards.</p>

The ED	EFRAG view	Planned actions of the IASB
	<p>focus on how prudence should affect standard setting rather than the behaviour of preparers of financial statements.</p>	<p>In addition, the IASB directed the IASB 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.</p> <p>At its September 2016 meeting, the IASB decided to try to include the essence of paragraph BC2.14 of the Basis for Conclusions related to the ED in the Conceptual Framework itself.</p> <p>At its October 2016 meeting, the IASB tentatively decided that the revised Conceptual Framework should acknowledge that the exercise of prudence does not imply a need for 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</p> <p>This tentative decision may reflect EFRAG’s view that sometimes it may be useful to require more certainty before recognising</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>income or assets than before recognising expenses or liabilities.</p> <p>The IASB's tentative decision does not result in the reasons for not identifying asymmetric prudence as a necessary characteristic of useful financial information being reflected in the Conceptual Framework. EFRAG's comments are thus not address in relation to this issue. However, as the IASB's tentative decision would reflect that accounting policies that treat gains and losses asymmetrically could be selected if their selection is intended to result in relevant information that faithfully represents what it purports to represent, important parts of the Basis for Conclusions will be incorporated in the Conceptual Framework itself (in accordance with the comments of EFRAG).</p> <p>The IASB's tentative decision does not address the concerns of EFRAG:</p> <ul style="list-style-type: none">• of prudence being considered in relation to neutrality;• that the Conceptual Framework should include directions for asymmetry to be reflected in Standards on a consistent basis; <p>Depending on the final wording of the section, the IASB's tentative decision may also not address the view of EFRAG that the</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>description of prudence should be directed towards the IASB.</p> <p>Finally, the IASB will not include the definition of prudence as suggested by EFRAG, although some of the elements included in the definition have been acknowledged by the IASB and reflected in its tentative decision.</p> <p>On the other hand, the tentative decision would reflect the view of EFRAG that asymmetry should not be limited to counteracting any bias by management.</p>
Substance over form		
<p>The ED stated that 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.</p>	<p>EFRAG welcomed the reintroduction of ‘substance over form’ but thought the distinction between ‘legal substance’ and ‘legal form’ should be more clearly explained.</p>	<p>At its May 2016 meeting, the IASB confirmed that 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. The IASB would also explain that legal aspects can affect the substance.</p>
Measurement uncertainty		
<p>The ED suggested to continue to refer to ‘faithful representation’ instead of ‘reliability’. The ED suggested that greater prominence should be given to the idea that if the level of uncertainty associated with an estimate is</p>	<p>EFRAG disagreed that measurement uncertainty should be an element of ‘relevance’. The Conceptual Framework should provide the opportunity of gaining a better understanding of what the boundary of a reliable measurement should be.</p>	<p>At its May 2016 meeting the IASB decided to describe measurement uncertainty as a factor affecting faithful representation rather than relevance. In the IASB paper prepared for the session, it was noted that</p>

The ED	EFRAG view	Planned actions of the IASB
sufficiently large, that estimate might not provide relevant information.	Acknowledgment of the trade-off between relevance and faithful representation should remain. Further, it should be clear that uncertainty plays a role in both recognition and measurement.	the boundary of an acceptable level of measurement uncertainty depends on particular circumstances, thus this issue would be considered when developing specific Standards and not in the Conceptual Framework.
Relevance and faithful representation		
The ED continued to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information.	EFRAG supported the Conceptual Framework continuing to identify relevance and faithful representation (or reliability) as the two fundamental qualitative characteristics of useful financial information.	At its May 2016 meeting, the IASB confirmed that relevance and faithful representation should continue to be identified as the two fundamental qualitative characteristics of useful financial information and that there could be a trade-off between these fundamental qualitative characteristics.
Materiality		
The ED broadly maintained the guidance of the current Conceptual Framework on materiality.	EFRAG did not comment on this issue.	At its October 2016 meeting, the IASB tentatively confirmed the definition of materiality proposed in the ED. That definition will not be updated immediately for the amendments discussed in the Principles of Disclosure project (but could be updated at a later stage, depending on the outcome of the Principles of Disclosure project).
Description and boundary of a reporting entity		
The ED stated that a reporting entity is not necessarily a legal entity. It can comprise a	EFRAG agreed with the ED that a reporting entity is not necessarily a legal entity and that	At its September 2016 meeting, the IASB confirmed that a reporting entity is an entity

The ED	EFRAG view	Planned actions of the IASB
<p>portion of a legal entity, or two or more entities. In addition, it was stated that in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements. Finally, financial statements should be prepared from the perspective of the reporting entity as a whole, instead of from the perspective of any particular group of investors, lenders or other creditors.</p>	<p>an entity can prepare both individual and consolidated financial statements. EFRAG disagreed with including a statement that consolidated financial statements are more likely to provide useful information than unconsolidated financial statements. Finally, EFRAG considered that it would be beneficial to have further explained in the Conceptual Framework what the implications of applying the entity approach would be.</p>	<p>that chooses, or is required, to prepare general purpose financial statements. The IASB also agreed to set the boundaries of a reporting entity as suggested in the ED (may not have to be a legal entity, can be both a single entity and a group and can be a combination without a parent-subsidiary relationship). The IASB would include more guidance on how to set the boundary of a reporting entity, when such an entity is not a legal entity, but only a portion of an entity or comprises two or more entities that do not have a parent-subsidiary relationship.</p> <p>The IASB also decided to replace the terms ‘direct’ and ‘indirect’ control (but maintain the concepts in the Conceptual Framework) and to keep a statement such as, in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements.</p> <p>In addition, the IASB decided to delete the statement that an entity needs to disclose in unconsolidated financial statements how users may obtain its consolidated financial statements. It will, however, still be stated that an entity may choose, or be required, to present unconsolidated financial statements.</p> <p>The Conceptual Framework will include the assumption that the reporting entity is a going</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>concern and will continue in operation for the foreseeable future. If the entity has a need or intention to liquidate or cease trading, the financial statements may have to be prepared on a different basis and if so, the basis used should be disclosed in the financial statements.</p> <p>Finally, the IASB decided to keep the statement 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.</p> <p>The IASB staff will provide an analysis of any inconsistencies between this approach and existing Standards at a future meeting.</p>

Definitions of elements

<p>The ED defined:</p> <p>An asset as a present economic resource controlled by the entity as a result of past events;</p> <p>An economic resource as a right that has the potential to produce economic benefits;</p> <p>A liability as a present obligation of the entity to transfer an economic resource as a result of past events;</p>	<p>EFRAG initially supported the proposed definitions, but thought that they should be further tested (EFRAG tested the definitions, but the response rate was too low to conclude anything). EFRAG disagreed with removing the description of revenue and with stating that if one party has a liability another party has an asset. EFRAG supported the asset/liability approach, but thought that the IASB should consider situations where Standards would not result in useful matching of expenses with related income. In those</p>	<p>At its April 2016 meeting, the IASB decided to 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.</p> <p>At its April 2016 meeting, the IASB tentatively decided 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</p>
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The ED	EFRAG view	Planned actions of the IASB
<p>Equity as the residual interest in the assets of the entity after deducting all its liabilities;</p> <p>Income as 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</p> <p>Expenses as decreases assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p> <p>The ED stated that if one party has a liability, another party (or parties) has an asset. The party or parties could be a specific person or entity, a group of people or entities, or society at large. The ED did not include any description of gains, losses, revenue and ordinary activities. Finally, the ED stated that a physical object includes several different rights (e.g. the right to use the object, the right to sell the object, and the right to pledge the object).</p> <p>The ED proposed several new concepts to support the definition of a liability. The most significant was the proposed description of a present obligation.</p> <p>The ED stated that an entity has a present obligation to transfer an economic resource if both:</p>	<p>cases, the IASB should carefully assess whether the information provided would be relevant.</p>	<p>Framework project. Instead, the IASB should 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. This approach should be explained in the Basis for Conclusions accompanying the revised Conceptual Framework. The explanation should highlight the possibility of further amendments to the Conceptual Framework.</p> <p>At its June 2016 meeting, the IASB tentatively agreed that the definitions of income and expenses to be included in the Conceptual Framework should be those proposed in the ED. It was also decided that there should not be a list of examples of income and expenses, but the IASB staff should investigate whether it would be possible to make cross references to the discussions of income and expenses elsewhere in the Conceptual Framework.</p> <p>In its paper for the June 2016 meeting, the IASB staff recommended not defining revenue as the definition referred to ‘ordinary activity’, which was not defined in the Conceptual Framework. The definition was therefore not helpful.</p>

The ED	EFRAG view	Planned actions of the IASB
<p>(a) the entity has no practical ability to avoid the transfer; and</p> <p>(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.</p> <p>The ED specified that 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.</p>		<p>At its July 2016 meeting, the IASB decided to follow the proposals included in the ED with respect to:</p> <p>(a) Not including a reference to ‘expected’ inflows or outflows of economic benefits should be removed from the definitions of an asset and a liability.</p> <p>(b) Not including any more discussion of particular types of rights and not make any major changes to the concepts proposed in the ED to explain the phrase ‘controlled by the entity’ in the definition of an asset.</p> <p>(c) Defining an economic resource as a ‘right’, not as a ‘right or other source of value’.</p> <p>(d) Specifying that:</p> <ul style="list-style-type: none"> • To meet the definition of an economic resource and, hence, an asset, a right should have the ‘potential to produce’ economic benefits; and • To meet the definition of a liability, an obligation should have the ‘potential to require’ the entity to transfer an economic resource. <p>The Conceptual Framework should explain that rights that are held by all parties are not assets. However, contrary to the ED, the Conceptual Framework should not state that this is because an economic resource must</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>have the potential to produce economic benefits beyond those available to all other parties.</p> <p>At its July 2016 meeting, the IASB decided to follow the proposals included in the ED with respect to:</p> <p>(a) Removing the requirements for ‘expected’ inflows or outflows of economic benefits from the definitions of an asset and a liability; and</p> <p>(b) Specifying instead 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.</p> <p>At its July 2016 meeting, the IASB also decided:</p> <p>(a) Not to make any major changes to the concepts proposed in the ED to explain the phrase ‘controlled by the entity’ in the definition of an asset.</p> <p>(b) That, consistent with the proposals in the ED, the revised Conceptual Framework should define an economic resource as a ‘right’, not as a ‘right or other source of value’ (as in the DP).</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>(c) To 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.</p> <p>(d) To include more discussion of particular types of rights than was proposed in the ED.</p> <p>At its November 2016 meeting the IASB tentatively decided that (as was proposed in the ED):</p> <p>(a) The definitions of an asset and a liability should include both the term ‘present’ and the phrase ‘as a result of past events’.</p> <p>(b) The concepts supporting the liability definition should not require a ‘present claim’ against the entity by another party.</p> <p>(c) The Conceptual Framework should not contain concepts that specifically address non-reciprocal transactions.</p> <p>Contrary to the view expressed by EFRAG, the IASB also decided that the revised Conceptual Framework should state that if</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>one party has an obligation to transfer an economic resource, it follows that another party (or parties) has a right to receive that economic resource. However, a requirement for one party to recognise a liability (or asset) and measure it at a specified amount does not imply that the other party must recognise the corresponding asset (or liability) or measure it at the same amount.</p>
Present obligation		
<p>The ED explained that an entity has a present obligation to transfer an economic resource as a result of past events if both:</p> <p>(a) The entity has no practical ability to avoid the transfer; and</p> <p>(b) The obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that established the extent of its obligation.</p> <p>An event establishes the extent of an obligation if it specifies either the amount of the future transfer or the basis for determining that amount.</p> <p>The ED explained that obligations need not be legally enforceable. They can also arise from an entity's customary practices or published policies or specific statements that</p>	<p>EFRAG generally agreed with how the ED described a 'present obligation' and a constructive obligation. However, EFRAG was concerned that the guidance was not sufficiently clear. As a result, EFRAG sought to collect further input during the comment period. As this input did not bring further clarity, EFRAG Secretariat wrote to the IASB staff and asked for the IASB staff to further test the implications.</p>	<p>At its April 2016 meeting, the IASB decided:</p> <p>(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 ED), and add those concepts to the Conceptual Framework, as part of the Conceptual Framework project; and</p> <p>(b) In developing those concepts, to consider refinements to the proposals in the ED to reduce the risk of adding to the Conceptual Framework new concepts that the IASB may need to revisit as a result of future decisions on classification of financial instruments.</p> <p>At its November 2016 meeting, the IASB was presented with input from tests of the liability definition and guidance. The IASB tentatively decided that:</p>

The ED	EFRAG view	Planned actions of the IASB
<p>require the transfer of an economic resource or where the entity has no practical ability to avoid transferring an economic resource.</p>		<p>(a) The liability definition should specify that the entity must have ‘no practical ability to avoid’ transferring an economic resource (as proposed in the ED).</p> <p>(b) The concepts on the meaning of ‘no practical ability to avoid’ should be refined and state that to conclude that an entity has ‘no practical ability to avoid’ a transfer:</p> <ul style="list-style-type: none"> • 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. • It would never be sufficient that the management of the entity intends to make the transfer or that the transfer is probable. <p>(c) No further concepts on the meaning of ‘no practical ability to avoid’ should be added to the Conceptual Framework beyond those proposed in the ED.</p> <p>(d) Two statements in the ED that would apply in practice only to questions of how to distinguish liabilities from equity claims (i.e. paragraphs 4.40 and 4.33(b) of the ED) should be removed.</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>(e) The two criteria (the ‘no practical ability to avoid’ criterion and the ‘as a result of past events’ criterion) should be removed. However, the criteria would continue to be identified as necessary characteristics of a liability. Removing the two criteria would clarify that any claim with these two characteristics is not necessarily a liability.</p> <p>(f) The Conceptual Framework should, when clarifying the meaning of ‘as a result of past events’:</p> <ul style="list-style-type: none"> • 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). • Include 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 applies.

Other guidance on the elements

The ED stated that an executory contract contains a right and an obligation to	EFRAG disagreed with how the ED dealt with executory contracts. EFRAG noted that the	In relation to executory contracts, the IASB tentatively decided at its October 2016
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The ED	EFRAG view	Planned actions of the IASB
<p>exchange economic resources. The combined right and obligation constitute a single asset or liability. Whether the asset or the liability is included in the financial statements depends on both the recognition criteria and the measurement basis adopted for the contract. The ED did not address the measurement of executory contract assets and liabilities. Instead the IASB should apply the general measurement concepts in the Conceptual Framework when specifying requirements for particular types of executory contracts within the applicable Standard.</p> <p>The Basis for Conclusions accompanying the ED stated that selecting a unit of account is a standards level decision. However, the ED described possible units of account and included a list of factors to consider when determining the unit of account. The ED stated that in some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement</p>	<p>current practice whereby executory contracts were generally not recognised as long as the rights are at least equal in value to the obligations, was useful. The Basis for Conclusions accompanying the ED indicated that such an outcome would only be the result if the executory contract was measured at nil (historical cost). EFRAG was also concerned with the Conceptual Framework allowing subsequent measurement of executory contracts to be different from the initial measurement</p> <p>EFRAG was uncertain about whether the discussion on the unit of account provided sufficient guidance for the IASB and thought that the unit of account for measurement decisions and recognition decisions should generally be the same. In addition, EFRAG thought that the unit of account should be selected when considering how recognition and measurement will apply (and not after).</p>	<p>meeting that the Conceptual Framework should contain no additional discussion of recognition of executory contract assets and liabilities than was included in the ED. However, the IASB would clarify whether a partially performed contract is non-executory in its entirety or consists of an executory and a non-executory part.</p> <p>The IASB’s tentative decisions on executory contracts do thus not address the concern expressed by EFRAG.</p> <p>Consistent with the comments expressed in EFRAG’s comment letter in response to the ED, the IASB decided at its October 2016 meeting that the unit of account is selected for an asset or a liability when considering how recognition and measurement will apply (and not after).</p> <p>However, the IASB’s tentative decisions have not addressed EFRAG’s concern related to the usefulness of the guidance as the IASB tentatively decided to provide no additional guidance on the unit of account. In addition, the IASB tentatively decided to confirm that sometimes it may be appropriate to select one unit of account for recognition and another unit of account for measurement.</p> <p>At its October 2016 meeting the IASB confirmed that the selected unit of account</p>

The ED	EFRAG view	Planned actions of the IASB
		may need to be aggregated or disaggregated for presentation and disclosure.
Recognition criteria		
<p>The ED did not include criteria that could govern the recognition of an asset or a liability in all circumstances. Instead, the ED stated that assets and liabilities should be recognised when they provide users of financial statements with:</p> <p>(a) Relevant information about the asset or liability, and about any income, expenses or changes in equity;</p> <p>(b) A faithful representation of the asset or liability and of any income, expenses or changes in equity; and</p> <p>(c) Information that results in benefits exceeding the cost of providing that information.</p> <p>The ED provided three examples of when information would not be relevant.</p>	<p>EFRAG broadly agreed with the guidance on recognition. However, in some areas EFRAG was concerned that the guidance proposed was insufficient to ensure consistent standard setting in the future.</p>	<p>At its July 2016 meeting, the IASB decided that:</p> <p>(a) The revised Conceptual Framework should confirm the approach to recognition as proposed in the ED which requires recognition decisions to be made by reference to the qualitative characteristics of useful financial information.</p> <p>(b) The revised Conceptual Framework should not prescribe a ‘probability criterion’, i.e. it should not prohibit the recognition of assets or liabilities with a low probability of an inflow or outflow of economic benefits.</p> <p>(c) The concepts proposed in the ED 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.</p> <p>(d) The revised Conceptual Framework should not identify the need for benefits that exceed the costs as a third distinct recognition criterion. Instead, the Conceptual Framework should explain that, as with all</p>

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		other areas of financial reporting, cost constrains recognition decisions.
Derecognition		
<p>The ED stated that the aims of derecognition would normally be achieved by:</p> <p>(a) Derecognising any assets or liabilities that have been transferred, consumed, collected or fulfilled, or have expired and recognising any resulting income or expense; and</p> <p>(b) Continuing to recognise the assets or liabilities retained, if any (the retained component), which become a separate unit of account. Accordingly, no income or expenses are recognised on the retained component as a result of the derecognition of the transferred component.</p>	<p>EFRAG was concerned that the guidance proposed was insufficient to ensure consistent standard setting in the future.</p>	<p>The IASB considered this topic at its December 2016 meeting (see the main section of this paper).</p>
Measurement bases		
<p>The ED categorised measurement bases as:</p> <p>(a) Historical cost; or</p> <p>(b) Current value (which could be fair or value in use for assets and fulfilment value for liabilities).</p>	<p>EFRAG broadly agreed with the categorisation proposed in the ED and with the ED’s description of the information provided by each of the measurement bases. However, EFRAG thought that the Conceptual Framework should consider the possible use of market-consistent measurement bases other than fair value.</p>	<p>At its April 2016 meeting, the IASB decided to improve the discussion on measurement in the light of responses to the ED. No decisions were made on how to do this.</p> <p>From the discussion at the April 2016 IASB meeting, it seemed as if the IASB, to the extent possible given the timeframe, would retain many of the ideas that were set out in</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>the ED, while clarifying the links between the ideas discussed and the implications of the discussion. More specifically, the aim would be to clarify the description of measurement bases, the information they provide and the factors to be considered in the selection of a measurement basis. This might involve the development of some new material.</p> <p>At its July 2016 meeting, the IASB decided that the Conceptual Framework should include a description of the information provided by 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 as in the ED where it was placed under historical cost.</p> <p>The IASB also decided that the Conceptual Framework should retain the discussion in the ED of faithful representation and the enhancing qualitative characteristics, but should not attempt to provide examples of their implications in specific cases.</p> <p>The IASB also considered this topic at its December 2016 meeting (see the main section of this paper).</p>
<p>Factors to consider when selecting a measurement basis</p>		
<p>The ED stated that the IASB should consider both the statement of financial position and</p>	<p>EFRAG thought that the ED did not provide sufficient guidance on what measurement</p>	<p>See above.</p>

The ED	EFRAG view	Planned actions of the IASB
<p>the statement(s) of profit or loss and other comprehensive income (OCI) when selecting a measurement basis.</p> <p>The ED also stated that information in the financial statements can be made more relevant by considering:</p> <ul style="list-style-type: none"> • How the asset or liability will contribute to future cash flows; and • The characteristics of the asset or liability. <p>The level of measurement uncertainty associated with the measurement of an item was stated as another factor that could affect the relevance provided by a measurement basis.</p>	<p>bases are useful for reporting financial position and what are useful for reporting performance; when to select between market-consistent and entity-specific measurement bases; and when customisation of measurement bases could be useful. However, it was suggested that the IASB could build on the description of different measurement bases to determine the necessary guidance</p>	
<p>More than one relevant measurement basis</p>		
<p>The ED stated that it may be appropriate to use one measurement basis for the statement of financial position and a different measurement basis for the statement of profit or loss.</p>	<p>EFRAG thought that the same measurement should be applied for the statement of profit or loss and the statement of financial position. However, income and expenses arising from the chosen measurement basis may be analysed into their component parts in the statement of profit or loss and OCI where this provides useful information.</p>	<p>See above.</p>
<p>Objective and scope of financial statements and communication</p>		

The ED	EFRAG view	Planned actions of the IASB
<p>The ED stated that the objective of 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.</p>	<p>EFRAG agreed with the proposals included in the ED on the objective and scope of financial statements and communication. However, it was thought that the IASB should consider how to distinguish between presentation and disclosure</p>	<p>At its September 2016 meeting, the IASB decided to maintain the objective as stated in the ED of the financial statements. Like the ED, the Conceptual Framework should describe the objective of the financial statements as a whole rather than describing objectives of the financial statements' components. Similar to the ED, the scope of the financial statements should be described by reference to their objective.</p> <p>The IASB also decided not to identify any 'primary financial statements' and refrain from discussing the relationship between those statements and 'the notes'.</p> <p>The IASB would only refer to the statement of financial position and the statement(s) of financial performance in the Conceptual Framework (i.e. no reference would be made to the statement of cash flows and the statement of changes in equity).</p> <p>Finally, the IASB decided to make no distinction between the terms 'present' and 'disclose' in the Conceptual Framework.</p>
<p>Description of the statement of profit or loss</p>		
<p>The ED stated that the purpose of the statement of profit or loss is to:</p>	<p>In its public consultation document, EFRAG supported the description of the statement of profit or loss proposed in the ED. However, it recommended that the IASB clarify what it</p>	<p>At its April 2016 meeting, the IASB decided to provide only high-level guidance on reporting financial performance in the Conceptual Framework. The guidance would</p>

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<p>(a) Depict the return that an entity has made on its economic resources during the period; and</p> <p>(b) Provide information that is helpful in assessing prospects for future cash flows and in assessing management’s stewardship of the entity’s resources.</p> <p>Hence, income and expenses included in the statement of profit or loss are the primary source of information about an entity’s performance for the period.</p>	<p>means by ‘return on an entity’s economic resources’.</p>	<p>be based on the proposals in the ED, modified in the light of the feedback received.</p> <p>At its June 2016 meeting the IASB agreed that the Conceptual Framework, like the ED, would describe the statement of profit or loss as the primary source of information about an entity’s financial performance for the period. However, it would not set out the purpose of that statement.</p>
<p>Reporting items of income or expenses in other comprehensive income</p>		
<p>The ED required profit or loss as a total or subtotal and included a presumption that all items of income and expense should be included in profit or loss.</p>	<p>EFRAG did not find the guidance included in the ED on the use of OCI satisfactory.</p> <p>EFRAG thought that without clearer principles for what profit or loss should represent, the IASB could not state that profit or loss should be as inclusive as possible. EFRAG would, however, not reject a definition or description of profit or loss that would result in fewer items than currently being reported in OCI.</p>	<p>At its June 2016 meeting the IASB decided to 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 ED. The revised Conceptual Framework would state that this is only expected to occur in exceptional circumstances.</p> <p>At its June 2016 meeting, the IASB also decided to state that a decision about</p>

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		including income and expenses in OCI can be made only by the IASB in setting Standards. In making such a decision the IASB 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.
Recycling		
The ED included a presumption that all items of income and expense recognised in other comprehensive income should be recycled to profit or loss.	EFRAG thought that a principle (rather than a rebuttable presumption) should be set that no income and expense should be permanently excluded from the statement of profit or loss.	At its June 2016 meeting, the IASB decided to 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 ED. It would be stated 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 faithful representation of information provided in the statement of profit or loss for that period. Decision about whether and when income and expenses included in OCI should be recycled can be made only by the IASB in setting Standards. In making such a

The ED	EFRAG view	Planned actions of the IASB
		<p>decision the IASB 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.</p> <p>At its June 2016 meeting the IASB decided to remove the statement in the ED that an inability to identify a clear basis for recycling may indicate that such income or expenses should not be included in OCI.</p>
Concepts of capital and capital maintenance		
<p>The ED included the current guidance on the concepts of capital and capital maintenance with minor changes for consistency of terminology.</p>	<p>EFRAG did not address this issue in its comment letter.</p>	<p>The IASB considered this topic at its December 2016 meeting (see the main section of this paper).</p>
Effects of the proposed changes to the Conceptual Framework		
<p>The ED stated that the Conceptual Framework does not override any Standard. The ED identified that some of the classification requirements of IAS 32 <i>Financial Instruments – Presentation</i> and the requirements of IFRIC 21 <i>Levies</i> would be inconsistent with the proposals in the ED.</p>	<p>EFRAG agreed with the status of the Conceptual Framework. As EFRAG assessed that the ED did not provide clear directions for future standard-setting activities, EFRAG did not think that the effect analysis included in the ED was particularly helpful.</p>	<p>At its April 2016 meeting, the IASB decided to retain the existing status of the Conceptual Framework, and to confirm the proposal in the ED to explain any departures from aspects of the Conceptual Framework in the Basis for Conclusions accompanying the Standard in question.</p> <p>At its April 2016 meeting, the IASB also decided not to perform a comprehensive analysis of:</p>

The ED	EFRAG view	Planned actions of the IASB
		<p>(a) The effects of the revised Conceptual Framework on future Standard-setting; or</p> <p>(b) Inconsistencies between the revised Conceptual Framework and Standards.</p> <p>However, it decided to:</p> <p>(a) Analyse additional inconsistencies between the revised Conceptual Framework and Standards that have been claimed to exist by respondents; and</p> <p>(b) Perform a more detailed analysis of the effects of the revised Conceptual Framework for preparers.</p> <p>At the November 2016 IASB meeting, the IASB considered an analysis prepared by the IASB staff on the effects of the revised Conceptual Framework for preparers (see the main section of this paper).</p>
Business activities		
<p>The ED did not provide a single overarching description of how the nature of an entity's business activities would affect standard-setting. Instead, it noted that the nature of an entity's business activities was likely to affect: measurement, the unit of account, the distinction between profit or loss and OCI and presentation and disclosure.</p>	<p>EFRAG thought that standards should not be made in a manner that would generally result in entities not being able to reflect their business models in the financial statements. In addition, it should be described what the term 'business model' means.</p>	<p>The IASB discussed this issue at its December 2016 meeting (see main section of this paper).</p>

The ED	EFRAG view	Planned actions of the IASB
Long-term investment		
<p>The ED concluded that the proposals provided sufficient tools for the IASB to make appropriate standard-setting decisions on how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment. The guidance would also be sufficient for decisions on 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.</p> <p>In addition, it was assessed that the ED contained sufficient and appropriate discussion to address appropriately the needs of long-term investors.</p>	<p>EFRAG thought that the ED provided insufficient guidance on the unit of account, measurement and presentation in order to be helpful to reflect long-term investment business models. Where financial reports genuinely provide information that is necessary to make decisions to buy, hold and sell and to assess the management's stewardship EFRAG thought that it is not necessary to differentiate among investors on the basis of their investment horizon</p>	<p>The IASB discussed this issue at its December 2016 meeting (see main section of this paper).</p>
Distinction between liabilities and equity		
<p>The ED defined and provided additional guidance on a liability, but did not further consider the distinction between liabilities and equity.</p>	<p>EFRAG did not comment on this issue in its comment letter as it thought it would be most efficient to consider the issue in a separate project and then update the Conceptual Framework at a later date. EFRAG was aware that this could result in other changes to the Conceptual Framework at that time.</p>	<p>At its April 2016 meeting, the IASB decided:</p> <ul style="list-style-type: none"> (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) Continue to develop concepts to address those challenges in the Financial Instruments with Characteristics of Equity research

The ED	EFRAG view	Planned actions of the IASB
		<p>project, acknowledging that one outcome of that project might be a need to make further amendments to the revised Conceptual Framework; and</p> <p>(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.</p> <p>As mentioned above, the IASB also decided:</p> <p>(a) To continue to develop concepts to address other problems in identifying liabilities (such as the concepts describing a ‘present obligation’), and add those concepts to the Conceptual Framework, as part of the Conceptual Framework project; and</p> <p>(b) In developing those concepts, to consider refinements to the proposals in the ED to reduce the risk of adding to the Conceptual Framework new concepts that the IASB may need to revisit as a result of future decisions on the classification of financial instruments.</p> <p>At its September 2016 meeting, the IASB decided to continue to make a binary distinction between liabilities and equity. Equity would be defined as “the residual interest in the assets of the entity after deducting all its liabilities”. The Conceptual Framework should include the discussion in</p>

The ED	EFRAG view	Planned actions of the IASB
		the ED about the different types of equity claims in the conceptual framework (paragraphs 4.44 - 4.47 of the ED). In addition, the Conceptual Framework should include the discussion about the measurement of equity (paragraphs 6.78 – 6.80 of the ED (saying that the total amount of equity is measured as a residual, but some individual classes or categories of equity may be measured directly)).