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 December 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 assets and liabilities, 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 and derecognition;

(k) The role of business activities (including long-term investments);

(l) The usefulness of financial statements for long-term investors;

(m) The guidance on measurement;

(n) The guidance on presentation and disclosure;

(o) The guidance on presenting information about financial performance; and

(p) The concepts of capital and capital maintenance.

5 The IASB also discussed the effects of the proposed changes to the Conceptual Framework on preparers.

The tentative decisions made by the IASB at its January and February 2017 meetings

6 The IASB discussed the following issues at its January and February 2017 meetings:

(a) The definitions of assets and liabilities;

(b) Measurement;

(c) Potential inconsistencies of existing standards with the revised Conceptual Framework;

(d) Effects of the revised Conceptual Framework;

(e) Due process; and

(f) Updating the references in Standards to the revised Conceptual Framework.

7 The IASB made the following tentative decisions:

(a) In the section on factors specific to initial measurement:

(i) An alternative wording should replace 'exchanges of items of similar value'. The alternative wording could refer to 'market transactions';

(ii) Initial measurement should be discussed only in relation to such 'market transactions';

(iii) 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.

(iv) The revised Conceptual Framework should exclude the discussion of internally constructed assets that was proposed in the ED.

(b) As suggested in the ED, the Conceptual Framework should state that more than one measurement basis might sometimes be selected to provide information about an asset, liability, income or expense. When more than one measurement basis is selected, both the relevance and faithful representation of information about an asset, liability, income or expense should be considered. Selecting different measurement bases for an asset or a liability in the statement of financial position and for related income or expense 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.

(c) The ED included an appendix on cash-flow-based measurement techniques. At the February 2017 meeting, the IASB staff recommend keeping this appendix. However, the IASB tentatively decided to include the key sentences of the appendix in the Conceptual Framework itself and then remove the appendix.

(d) In relation to updating the reference in current Standards to the revised Conceptual Framework:

(i) Not to update the reference in IFRS 3 *Business Combinations* (as the revised Conceptual Framework could result in more separate assets and liabilities being identified (e.g. levies)) and start a project to make a narrow-scope amendment to IFRS 3.

(ii) Retain the existing descriptions of the assumed characteristics of users of financial statements and delete the associated references to the Conceptual Framework in: IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and in the implementation guidance of IFRS 4 *Insurance Contracts*.

(iii) Replace the reference to the existing Conceptual Framework with the reference to the revised Conceptual Framework in the guidance included in IAS 8 on what to do in the absence of an IFRS that specifically applies to a transaction other event or condition.

(iv) Replace the remaining references to the Framework with references to the revised Conceptual Framework and update related quotations in IFRS 2 *Share-based Payment*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 1, IAS 8, IAS 34 *Interim Financial Reporting* and SIC-32 *Intangible Assets—Web Site Costs*.

(v) Remove clarifying footnotes that were added after the revisions to the Conceptual Framework in 2010.

(vi) Require that revised accounting policies following from changes in the reference to the revised Conceptual Framework should be applied retrospectively unless retrospective application would involve undue cost and effort. A relief for rate-regulated entities should be considered by the IASB in March 2017.

(vii) The transition period should be approximately 18 months.

Summary of issues addressed

8 The table below summarises the extent to which the IASB has addressed the issues raised in EFRAG's comment letter in response to the ED. It should be noted that the table only reflects whether issues where EFRAG expressed concern with the ED have been addressed. Accordingly, if EFRAG broadly agreed with the ED on an issue, but assessed that a few things should be changed, the table below indicates whether those few things have been addressed. A more detailed summary of EFRAG's comments and the IASB's tentative decisions is available in the Appendix.

Section in ED	Have EFRAG's comments been addressed?
Purpose and status of the Conceptual Framework	No significant issues
Primary users	No
Stewardship	Partly
Prudence	Partly
Substance over form	Yes
Measurement uncertainty	Yes

Section in ED	Have EFRAG's comments been addressed?
Relevance and faithful representation	No significant issues
Materiality	No issues
Description and boundary of a reporting entity	Partly
Definitions of elements	Partly
Present obligation	Yes
Other guidance on the elements	No
Recognition criteria	Will depend on final wording
Derecognition	Will depend on final wording
Measurement bases	Yes
Factors to consider when selecting a measurement basis	Will depend on final wording
More than one relevant measurement basis	No major issues
Objective and scope of financial statements and communication	No
Description of the statement of profit or loss	No
Reporting items of income or expenses in other comprehensive income	No
Recycling	Yes
Concepts of capital and capital maintenance (EFRAG did not comment on this issue in its comment letter. However, EFRAG CFSS was consulted as the issue was discussed at an ASAF meeting)	EFRAG CFSS's comment not addressed
Business activities	No
Long-term investment	No
Distinction between liabilities and equity	Yes

9 Some of the more significant concerns that have not been addressed by the IASB are that the Conceptual Framework will not provide sufficient guidance on what items to recognise in OCI and the unit of account. Based on the IASB's tentative decisions, it is not possible to assess whether the guidance on recognition, derecognition and the selection of a measurement basis will be sufficient.

Next steps

10 At the March 2017 IASB meeting, the IASB plans to discuss the Exposure Draft Updating References to the Conceptual Framework (including transition requirements for rate-regulated activities).

11 The IASB staff expects to publish the revised Conceptual Framework in the second half of 2017.

12 At the February 2017 IASB meeting, the IASB agreed to initiate the balloting process on the revised Conceptual Framework. Accordingly, the EFRAG Secretariat does not plan to provide further updates on the Conceptual Framework to EFRAG TEG. EFRAG TEG will, however, have to discuss EFRAG's draft endorsement advice on the forthcoming publication on the update of the references to the Conceptual Framework.

Questions for EFRAG TEG

13 Does EFRAG TEG:

(a) Have any concerns with the tentative decisions made by the IASB at its January and February 2017 meetings (see paragraphs 6 - 7 above)? If so, what actions should EFRAG take?

(b) Agree that the EFRAG Secretariat should not prepare further updates on the Conceptual Framework (see paragraph 12 above)?

Appendix

EFRAG's comments and the IASB's tentative decisions

The ED	EFRAG view	Planned actions of the IASB
Purpose and status of the Conceptual Framework		
The ED explained that the purpose of the Conceptual Framework is to: (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. 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. The Conceptual Framework may be revised from time to time on the basis of the IASB's experience of working with it.	EFRAG 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 EFRAG TEG and the EFRAG Board indicated that EFRAG broadly agreed with the ED on these issues.	At its April 2016 meeting, the IASB decided to confirm the proposal in the ED in relation to the purpose of the Conceptual Framework. 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. 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.

The ED	EFRAG view	Planned actions of the IASB
Primary users		
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’.	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.	At its May 2016 meeting, the IASB decided to retain the description of the primary user group.
Stewardship		
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.	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. EFRAG also believed that the Conceptual Framework should describe the implications	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: (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.	(c) decisions to exercise other rights, such as rights to vote on or otherwise influence management's actions. 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.
Prudence		
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.	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	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.

The ED	EFRAG view	Planned actions of the IASB
	focus on how prudence should affect standard setting rather than the behaviour of preparers of financial statements.	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. 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. 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 This tentative decision may reflect EFRAG's view that sometimes it may be useful to require more certainty before recognising

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		income or assets than before recognising expenses or liabilities. 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). The IASB's tentative decision does not address the concerns of EFRAG: • 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; Depending on the final wording of the section, the IASB's tentative decision may also not address the view of EFRAG that the

The ED	EFRAG view	Planned actions of the IASB
		description of prudence should be directed towards the IASB. 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. 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.
Substance over form		
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.	EFRAG welcomed the reintroduction of 'substance over form' but thought the distinction between 'legal substance' and 'legal form' should be more clearly explained.	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.
Measurement uncertainty		
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	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.	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

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
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.	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.	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. 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. 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. The Conceptual Framework will include the assumption that the reporting entity is a going

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		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. 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. The IASB staff will provide an analysis of any inconsistencies between this approach and existing Standards at a future meeting.
Definitions of elements		
The ED defined: An asset as a present economic resource controlled by the entity as a result of past events; An economic resource as a right that has the potential to produce economic benefits; A liability as a present obligation of the entity to transfer an economic resource as a result of past events;	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	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. 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

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Equity as the residual interest in the assets of the entity after deducting all its liabilities; 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 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. 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). The ED proposed several new concepts to support the definition of a liability. The most significant was the proposed description of a present obligation. The ED stated that an entity has a present obligation to transfer an economic resource if both:	cases, the IASB should carefully assess whether the information provided would be relevant.	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. 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. 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.

The ED	EFRAG view	Planned actions of the IASB
(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 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.		At its July 2016 meeting, the IASB decided to follow the proposals included in the ED with respect to: (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. (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. (c) Defining an economic resource as a 'right', not as a 'right or other source of value'. (d) Specifying that: • 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. 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

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		have the potential to produce economic benefits beyond those available to all other parties. At its July 2016 meeting, the IASB decided to follow the proposals included in the ED with respect to: (a) Removing the requirements for 'expected' inflows or outflows of economic benefits from the definitions of an asset and a liability; and (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. At its July 2016 meeting, the IASB also decided: (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. (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).

The ED	EFRAG view	Planned actions of the IASB
		(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. (d) To include more discussion of particular types of rights than was proposed in the ED. At its November 2016 meeting the IASB tentatively decided that (as was proposed in the ED): (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 Conceptual Framework should not contain concepts that specifically address non-reciprocal transactions. Contrary to the view expressed by EFRAG, the IASB also decided that the revised Conceptual Framework should state that if

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		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.
Present obligation		
The ED explained that an entity has a present obligation to transfer an economic resource as a result of past events 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 established the extent of its obligation. 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. 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	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.	At its April 2016 meeting, the IASB 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 ED), 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 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. At its November 2016 meeting, the IASB was presented with input from tests of the liability definition and guidance. The IASB tentatively decided that:

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require the transfer of an economic resource or where the entity has no practical ability to avoid transferring an economic resource.		(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). (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: • 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. (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. (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.

The ED	EFRAG view	Planned actions of the IASB
		(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. (f) The Conceptual Framework should, when clarifying the meaning of 'as a result of past events': • 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

The ED	EFRAG view	Planned actions of the IASB
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. 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	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 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).	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. The IASB's tentative decisions on executory contracts do thus not address the concern expressed by EFRAG. 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). 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. At its October 2016 meeting the IASB confirmed that the selected unit of account

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		may need to be aggregated or disaggregated for presentation and disclosure.
Recognition criteria		
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: (a) Relevant information about the asset or liability, and about any income, expenses or changes in equity; (b) A faithful representation of the asset or liability and of any income, expenses or changes in equity; and (c) Information that results in benefits exceeding the cost of providing that information. The ED provided three examples of when information would not be relevant.	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.	At its July 2016 meeting, the IASB decided that: (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. (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. (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. (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

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		other areas of financial reporting, cost constrains recognition decisions.
Derecognition		
The ED stated that the aims of derecognition would normally be achieved by: (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 (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. 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	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.	At its December 2016 meeting, the IASB tentatively decided to confirm the derecognition concepts proposed in the ED. The concern of EFRAG that the guidance proposed is insufficient is therefore not addressed. 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

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distinct from those created by the original terms of the contract.		requirements applied to that previously recognised asset or liability. At its December 2016 meeting, the IASB tentatively decided to replace the 'distinct' notion in the discussion on contract modifications. The notion would be replaced with a reference to the concepts on the unit of account.
Measurement bases		
The ED categorised measurement bases as: (a) Historical cost; or (b) Current value (which could be fair or value in use for assets and fulfilment value for liabilities).	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.	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. 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 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. At its July 2016 meeting, the IASB decided that the Conceptual Framework should include a description of the information

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		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 (this decision was confirmed at the January 2017 IASB meeting). 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. At its December 2016 meeting, the IASB considered how to extend the description of information provided by different measurement bases and how to extend the guidance on factors to consider when selecting a measurement basis. The IASB also tentatively decided that it would not have to stick to 'clean' versions of the measurement bases included in the Conceptual Framework when setting Standards. This statement would replace the discussion in the ED on the customisation of value in use and fulfilment value and the effect of risk premiums and their reversal. In addition, at its December 2016 meeting, the IASB decided to:

The ED	EFRAG view	Planned actions of the IASB
		• Divide the section in the ED entitled ‘Measurement bases and the information that they provide’ into two sections: ‘Measurement bases’ and ‘Information provided by different measurement bases’. • 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’. • Relocate the discussion on measurement uncertainty to the discussion of faithful representation with consequential changes.
Factors to consider when selecting a measurement basis		
The ED stated that the IASB should consider both the statement of financial position and the statement(s) of profit or loss and other comprehensive income (OCI) when selecting a measurement basis. The ED also stated that information in the financial statements can be made more relevant by considering: • How the asset or liability will contribute to future cash flows; and	EFRAG thought that the ED did not provide sufficient guidance on what measurement 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	See above.

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• The characteristics of the asset or liability. 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.	different measurement bases to determine the necessary guidance	
More than one relevant measurement basis		
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.	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.	See above.
Objective and scope of financial statements and communication		
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.	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	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.

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		The IASB also decided not to identify any ‘primary financial statements’ and refrain from discussing the relationship between those statements and ‘the notes’. 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). Finally, the IASB decided to make no distinction between the terms ‘present’ and ‘disclose’ in the Conceptual Framework.
Description of the statement of profit or loss		
The ED stated 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. 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.	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 means by ‘return on an entity’s economic resources’.	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 be based on the proposals in the ED, modified in the light of the feedback received. 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.

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Reporting items of income or expenses in other comprehensive income		
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.	EFRAG did not find the guidance included in the ED on the use of OCI satisfactory. 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.	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. At its June 2016 meeting, the IASB also decided to state that a decision about 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.

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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 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. 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

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		may indicate that such income or expenses should not be included in OCI.
Concepts of capital and capital maintenance		
The ED included the current guidance on the concepts of capital and capital maintenance with minor changes for consistency of terminology.	The ED did not include any questions related to this issue. Accordingly, EFRAG did not include a view on this issue in its response to the ED. In a preparation meeting for the December 2016 ASAF meeting, EFRAG CFSS found that if the outdated section could not be updated, it should be removed from the Conceptual Framework.	The IASB considered this topic at its December 2016 meeting. Contrary to EFRAG CFSS's advice, the IASB tentatively decided to carry forward the existing chapter and 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.
Effects of the proposed changes to the Conceptual Framework		
The ED stated that the Conceptual Framework does not override any Standard. The ED identified that some of the classification requirements of IAS 32 *Financial Instruments – Presentation* and the requirements of IFRIC 21 *Levies* would be inconsistent with the proposals in the ED.	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.	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. At its April 2016 meeting, the IASB also decided not to perform a comprehensive analysis of: (a) The effects of the revised Conceptual Framework on future Standard-setting; or

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		(b) Inconsistencies between the revised Conceptual Framework and Standards. However, it decided to: (a) Analyse additional inconsistencies between the revised Conceptual Framework and Standards that have been claimed to exist by respondents; and (b) Perform a more detailed analysis of the effects of the revised Conceptual Framework for preparers. 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.
Business activities		
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.	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. EFRAG also noted that the Conceptual Framework should better reflect how the business activities would be considered in relation to the topics identified by the IASB in the ED plus recognition (particularly in relation to executory contracts).	At its December 2016 meeting, the IASB tentatively confirmed the position stated in the ED (i.e. not providing additional guidance, not considering recognition as an issue that could be affected by the business model and referring to 'business activities' instead of the 'business model'). The IASB tentatively decided to clarify in the Basis for Conclusions that the notion of business activities in the Conceptual Framework is a broad concept intended to assist the IASB in setting Standards. In addition, it would be explained that the notion of 'business model' in IFRS 9

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	In addition, it should be described what the term ‘business model’ means.	*Financial Instruments* is one example of how the IASB applied the concept in a particular standard-setting context.
Long-term investment		
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. In addition, it was assessed that the ED contained sufficient and appropriate discussion to address appropriately the needs of long-term investors.	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	At its December 2016 meeting, the IASB tentatively decided to confirm the approach in the ED. That is, the Conceptual Framework will not: • Comment on long-term investment as a business activity; • Include specific measurement or presentation concepts related to long-term investment; • 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. From the tentative decisions summarised above, it appears that the IASB also will not develop addition guidance on the unit of account, measurement and presentation.
Distinction between liabilities and equity		
The ED defined and provided additional guidance on a liability, but did not further	EFRAG did not comment on this issue in its comment letter as it thought it would be most	At its April 2016 meeting, the IASB decided:

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consider the distinction between liabilities and equity.	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.	(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 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. As mentioned above, the IASB also decided: (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 (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

The ED	EFRAG view	Planned actions of the IASB
		need to revisit as a result of future decisions on the classification of financial instruments. 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 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)).