EFRAG
European Financial Reporting Advisory Group

Draft Comment Letter

Comments should be submitted by 18 November 2015 to
commentletters@efrag.org

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

[Date]

Dear Sir/Madam,

Re: Exposure Draft *Updating References to the Conceptual Framework*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Updating References to the Conceptual Framework,* issued by the IASB on 28 May 2015 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

Our detailed comments and responses to the questions in the ED are set out in the Appendix. To summarise, EFRAG is concerned about possible unintended effects resulting from the proposed amendments – other than amendments to IAS 8 - and considers that the amendments should remain editorial in nature and therefore not require any transition provision. It further questions the feasibility and the enforceability of the amendment to IAS 8 as many different factors may have influenced the design of accounting policies, i.e. analogy to existing IFRS or other GAAP, and the exclusive link to the conceptual framework may be difficult to establish. It therefore recommends the IASB perform an effects analysis before making any changes as a result of the revised Conceptual Framework. Furthermore, EFRAG cannot support retrospective application without the possibility of assessing the practicality of the requirement.

Note to constituents

To form a final view, EFRAG needs input from its constituents on the expected impact of these proposed changes, where they identify that the proposed changes would not be editorial only and the extent to which their accounting policies are affected and whether they agree with the proposed retrospective application.

If you would like to discuss our comments further, please do not hesitate to contact Vincent van Caloen or me.

Yours faithfully,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX

Question 1 - Replacing references to the Conceptual Framework

Notes to constituents

1 *In IFRS 2, the footnote to the definition of an equity instrument was amended. Entities are required to apply amendment retrospectively in accordance with IAS 8.*

2 *In IFRS 3, the reference to the Conceptual Framework in the conditions for recognising identifiable assets acquired and liabilities assumed was updated. Entities are required to apply the amendment to business combinations for which the acquisition date is on or after the effective date in accordance with IAS 8.*

3 *In IFRS 4, the exemption from considering the Conceptual Framework (IN4) and the discussion on materiality (IG16) were updated. No information is provided on the initial application of the amendments.*

4 *In IFRS 6, the reference to the Conceptual Framework for guidance on the recognition of assets arising from development was updated. Entities are required to apply amendment retrospectively in accordance with IAS 8.*

5 *In IAS 1, the reference to the Conceptual Framework was updated in:*

(a) *the discussion on materiality (paragraph 7)*

(b) *the discussion of fair presentation (paragraph 15)*

(c) *the discussion of a departure from a requirement of an IFRS (paragraphs 19-20 and 23-24)*

(d) *the discussion of the application of the accrual basis of accounting (paragraph 28)*

(e) *the discussion on the recognition of particular items in other comprehensive income (paragraph 89)*

Entities are required to apply amendment retrospectively in accordance with IAS 8.

6 *In IAS 8, the reference to the Conceptual Framework and the assumption of the user's knowledge were updated in the definitions (paragraph 6). In addition, the reference to the Conceptual Framework was updated in the discussion on the selection and application of accounting policies (paragraph 11). Entities are required to apply amendment retrospectively in accordance with IAS 8.*

7 *In IAS 34, the reference to the Conceptual Framework was updated in the definition of recognition (paragraph 31). In addition, in the discussion on the characteristics of income (revenue) and expenses (paragraph 33), the criteria for recognition of expenses were deleted and the reference to the Conceptual Framework was updated. Entities are required to apply amendment retrospectively in accordance with IAS 8.*

8 *In SIC-27, the reference to the Conceptual Framework was updated in the discussion on determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity (paragraph 6). Entities are required to apply amendment retrospectively in accordance with IAS 8.*

9 *In SIC-32, the reference to the Conceptual Framework was updated in the discussion of the recognition of expenditure on an Internet service provider hosting the entity's web site. No information is provided on the initial application of the amendment.*

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

Question 1 – Replacing references to the Conceptual Framework

The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective.

Do you agree with the proposed amendments? Why or why not?

EFRAG's response

EFRAG is concerned about possible unintended effects of the proposed amendments. In particular, EFRAG questions the practicability of applying the amendment to IAS 8 as the link to the conceptual framework may be difficult to identify in practice. In addition, due to the lack of information on the use of the Conceptual Framework in developing accounting policies and the impact of the changes on those accounting policies, EFRAG is not able to form a view on whether retrospection application is applicable and therefore disagrees with the proposed retrospective application of the amendment to IAS 8. As to the other amendments, EFRAG believes that they all should be of editorial nature only and would therefore not require transition provisions.

11 EFRAG believes that the consistent application of IFRS requires the use of consistent terms and concepts in all the IFRS. Therefore EFRAG would, in principle, consider that all IFRS should refer to the same Conceptual Framework and therefore editorial changes would be welcome.

12 However, as the Conceptual Framework is not part of mandatory IFRS, EFRAG believes that the proposed changes to the references should be of a purely editorial nature. EFRAG notes that the implications of the proposed changes are not clear. In paragraph BC4 of the Basis for Conclusions, the IASB states "The IASB believes that these changes will not have a significant effect on the requirements of these Standards". This does not appear consistent with the set-up of transition requirements that are proposed for some, not all, proposed amendments.

13 Therefore EFRAG believes that the proposed changes in the ED *Conceptual Framework for Financial Reporting* should be incorporated into existing IFRS only if they do not trigger an accounting change.

Question to constituents

Do you consider that the proposed changes will have an effect on the requirements of the Standards, i.e. be more than editorial in nature? We note in particular the changes proposed to IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 3 *Business Combinations*.

Comments on the proposed amendments to IAS 8

14 EFRAG believes that to apply the proposed changes to IAS 8, entities would have to identify all accounting policies that were affected by the Conceptual Framework. Given that the application of the Conceptual Framework is considered after, and possibly together with, the requirements of IFRSs dealing with similar and related issues (paragraph 11), it is likely to be impractical to update accounting policies for one element in a complex judgement. Further, the IASB does not appear to be intending to update the "IFRSs dealing with similar and related issues" in the same time frame.

15 EFRAG is also concerned about the proposed retrospective application of these amendments, 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. As the possible changes are not identified, it is not possible to determine whether retrospective application can and should apply.

16 As a result, EFRAG believes that an effects analysis needs to be performed in order to understand the impact of these amendments, to assess their practicability and to weigh their benefits against their costs.

Question to constituents

In the absence of an IFRS that specifically applies to a transaction, other event or condition, have you used the Conceptual Framework to develop an accounting policy? If so, and the accounting policy you have developed would be in conflict with the proposals included in the ED, would it be practical for you to change the accounting policy retrospectively and within 18 months? Do you have a view on the costs of retrospective application?

Question 2 – Effective date and transition

Notes to constituents

17 *The IASB proposes that:*

(a) *Where entities apply accounting policies that have been determined having the current conceptual framework as a reference and that would be in conflict in the revised conceptual framework, entities would be granted a transition period of approximately 18 months in order to bring those accounting policies in accordance with the revised framework. Early application should be permitted.*

(b) *The amendments, including the amendment mentioned above, should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.*

18 *The IASB did not propose an effective date for the amendments to IFRS 4 because the amendments affect only the Introduction and the Guidance and to SIC-32 as the amendments affect only the background to the issue.*

Question 2 – Effective date and transition

The IASB proposes that:

(a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted.

(b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.

Do you agree with the proposed transition provisions and effective date? Why or why not?

EFRAG's response

EFRAG is unable to comment on the proposed effective date and transition guidance before understanding the impact of the proposed amendments on the accounting.

Question 3 – Other comments Do you have any other comments on the proposals?

EFRAG's response

EFRAG does not have additional comments.