EFRAG
European Financial Reporting Advisory Group

Olivier Guersent
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

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Dear Mr Guersent

Endorsement of Amendments to References to the Conceptual Framework in IFRS Standards

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on *Amendments to References to the Conceptual Framework in IFRS Standards* ('the Amendments'), which was issued by the IASB on 29 March 2018. An Exposure Draft of the Amendments was issued on 28 May 2015. EFRAG provided its comment letter on that Exposure Draft on 23 December 2015.

The objective of the Amendments is to update references to and quotes from the Conceptual Framework in IFRS Standards so that they refer to the revised Conceptual Framework for Financial Reporting ('the revised Conceptual Framework') issued by the IASB on 29 March 2018. For reasons described in the Appendices to this letter, the IASB decided not to update references in two particular cases.

The Amendments shall be applied retrospectively, unless doing so would either be impracticable or involve undue cost or effort, for annual periods beginning on or after 1 January 2020. Earlier application is permitted, if the entity applies all of the amendments. A description of the amendments is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and are not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

In providing this endorsement advice, EFRAG emphasises that the Amendments do not change any requirements of endorsed IFRS Standards on the accounting for transactions, events or circumstances addressed by those Standards. Rather, EFRAG assesses that the main effect of the Amendments will be on accounting policies developed by entities in more limited situations not specifically addressed by an endorsed IFRS Standard. EFRAG further notes that the Conceptual Framework is only one of the sources of guidance applied by entities in the absence of specific requirements in an IFRS Standard. EFRAG therefore expects the practical effect of the Amendments to be limited.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued its initial assessment for public comment and, when finalising its advice and the content of this letter, took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG further notes that the Conceptual Framework is not endorsed within the EU. EFRAG's evaluation therefore included applicable aspects of the revised Conceptual Framework only to the extent considered necessary to assess the Amendments against

the endorsement criteria. This endorsement advice is not, and should not be construed as, an assessment of the revised Conceptual Framework itself.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2 to this letter.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

Our advice to the European Commission

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement.

We note that the Amendments amend IFRS 14 *Regulatory Deferral Accounts* and add a new reference to IFRS 14 in the transition requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* As IFRS 14 has not been endorsed in the EU, we have excluded these amendments from our analysis.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

1 In March 2018 a revised Conceptual Framework for Financial Reporting was issued ('the revised Conceptual Framework'). It replaced the version of the Conceptual Framework issued in September 2010.

2 The Conceptual Framework is not a Standard. Nothing in the Conceptual Framework overrides any Standard or any requirement in a Standard. The purpose of the Conceptual Framework is to:

(a) Assist the IASB to develop Standards that are based on consistent concepts;

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

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

The issue and how it has been addressed

3 Some IFRS Standards contain references to, and quotations from, the version of the Conceptual Framework issued in September 2010, or the 2001 version that was replaced in September 2010. These references may not reflect the guidance included in the revised Conceptual Framework. In order to reflect the updated guidance in the revised Conceptual Framework, in the circumstances in which this was considered beneficial, the IASB issued the Amendments.

4 Preparers of financial statements can be affected by the Amendments if they use the Conceptual Framework to develop or select accounting policies when no Standard specifically applies to a transaction or other event and when interpreting requirements of Standards.

5 The Amendments are based on proposals from the Exposure Draft *Updating References to the Conceptual Framework*, published in May 2015.

What has changed?

6 The Amendments update some of the references and quotations in IFRS Standards and Interpretations so that they refer to the revised Conceptual Framework or specify the version of the Conceptual Framework to which they refer.

7 Some references in IFRS Standards have not been updated to refer to the revised Conceptual Framework. These include references that specify what material the IFRS Interpretations Committee (or its predecessors) used when interpreting particular requirements in IFRS Standards. In those cases, it is specified which version of the Conceptual Framework was used to support a particular interpretation made in the past.

8 In addition, the Amendments: (i) do not update the references to the revised Conceptual Framework in one IFRS Standard (IFRS 3 *Business Combinations*); and (ii) require the use of a previous version of the Conceptual Framework when developing an accounting policy for specified assets (regulatory deferral accounts) which are not covered by an (endorsed) Standard. Updating the reference in IFRS 3 to the revised Conceptual Framework would in some cases have resulted in entities reporting a gain or a loss without any change in the underlying economic realities. If the Amendments had required the revised Conceptual Framework to be used when developing an accounting policy for regulatory deferral accounts some entities might have changed their accounting practice for such accounts at a time when the IASB

is working on a new IFRS Standard addressing rate-regulated activities. The IASB therefore took this approach to avoid a situation in which entities might change their accounting policies for these balances and activities twice in a relatively short period of time.

When do the Amendments become effective?

9 The Amendments shall be applied for annual periods beginning on or after 1 January 2020. Earlier application is permitted if the entity applies all the amendments. The Amendments shall be applied retrospectively unless this would be impracticable or would involve undue cost or effort.

Appendix 2: EFRAG's technical assessment on the Amendments against the endorsement criteria

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation), in other words that the Amendments:

(a) Are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) Meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

3 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive'* (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG assesses that the changes included in the Amendments can be categorised as:

(a) Changes to IFRS Standards that have not been endorsed in the EU. The following have been excluded from the assessment:

(i) Changes to IFRS 14 *Regulatory Deferral Accounts.*

(ii) The first phrase in new paragraph 54G of the amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

(b) Changes to IFRS Standards that have been endorsed in the EU but that EFRAG assesses should not have any practical effect on financial statements. These changes include:

(i) The amendment to IFRS 3 *Business Combinations* which states that when applying the Standard, acquirers are required to apply the

definitions of an asset and a liability and supporting guidance in the IASC's *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in 2001 rather than the *Conceptual Framework for Financial Reporting* issued in 2018. Although this amendment will not have any practical effect on financial statements, it could be considered inappropriate to require previous versions of the Conceptual Framework to be applied. In that context, EFRAG therefore notes that the Basis for Conclusions accompanying the Amendments states that the IASB will conduct an analysis of the possible consequences of referring to the revised definitions of an asset and a liability. Once that analysis is complete, the IASB intends to amend IFRS 3 to replace the reference to the previous version of the Conceptual Framework in a way that avoids unintended consequences. The reference to a previous version of the Conceptual Framework in IFRS 3 is accordingly expected to be temporary.

(ii) The amendments to IFRIC 12 *Service Concession Arrangements* and IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. For these interpretations it is specified in a footnote that the applicable references (on which the Interpretations were developed) are to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001 and in effect when the Interpretations were developed.

(iii) The amendments to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and IFRIC 22 *Foreign Currency Transactions and Advance Consideration*. For these Interpretations it is specified in a footnote that the applicable references (on which the interpretations are developed) are to the *Conceptual Framework for Financial Reporting*, issued in 2010 and in effect when the Interpretations were developed.

(iv) The amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 which remove the cross reference to the Conceptual Framework when saying that users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. This statement is not included in the revised Conceptual Framework but is still included in IAS 1 and IAS 8. Accordingly, EFRAG assesses that the change does not have any implications.

(v) Removal of footnotes in various Standards explaining that, in September 2010, the IASB replaced the Framework with the Conceptual Framework for Financial Reporting.

(vi) The amendment to IAS 8 requiring that, when developing accounting policies for regulatory deferral account balances, the entity shall continue to refer to and consider the applicability of, the definitions, recognition criteria and measurement concepts in the *Framework for the Preparation and Presentation of Financial Statements* (adopted by the IASB in 2001) rather than those in the revised Conceptual Framework.

(vii) The amendment to IAS 34 *Interim Financial Reporting* replacing "incorporating in the balance sheet or income statement" with "capturing for inclusion in the statement of financial position or the statement(s) of financial performance".

(viii) The footnotes included in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets* stating that the definition of a liability in these Standards was not revised following the revision of the liability in the revised Conceptual Framework.

(c) Changes to IFRS Standards as endorsed in the EU that EFRAG assesses could in theory have some effect on financial statements but where EFRAG further assesses that any such effect would be minor and would arise only in very limited circumstances. These include:

(i) Updating the definition of a liability in the footnote to the definition of an equity instrument in Appendix A in IFRS 2 *Share-based Payment*. IFRS 2 defines an equity instrument as a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. A footnote quoted the definition of a liability from the Conceptual Framework issued in 2010. The Amendments update the footnote to quote the definition of a liability in the revised Conceptual Framework. The definition of a liability is different in the revised Conceptual Framework compared with the Conceptual Framework issued in 2010. However, similar to the Conceptual Framework issued in 2010, the revised Conceptual Framework does not address classification of financial instruments with characteristics of both liabilities and equity. In addition, the Amendments do not change the guidance on classification of financial instruments in IFRS 2. EFRAG accordingly assesses that the amendments will not have a significant effect on entities' accounting policies related to share-based payment within the scope of IFRS 2.

(ii) Updating the reference to the revised Conceptual Framework in paragraph 15 of IAS 1 *Presentation of Financial Statements*. Paragraph 15 of IAS 1 states that the application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. A fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework. The Amendments update the reference to the revised Conceptual Framework. The change does not affect the fact that entities are expected to continue applying IFRS Standards in preparing their financial statements even in cases in which the requirements of a particular Standard depart from aspects of the revised Conceptual Framework. In those cases, more disclosure should be provided. EFRAG accordingly assesses that the amendment will not significantly affect entities' accounting policies.

(iii) Updating the reference to the revised Conceptual Framework in paragraphs 19, 20, 23 and 24 of IAS 1. Paragraph 19 of IAS 1 provides guidance on what to do in the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework. Paragraphs 20 and 23 of IAS 1 require entities departing from a requirement of an IFRS Standard to disclose the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Conceptual Framework. Paragraph 24 of IAS 1 provides guidance on factors to consider when assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework. In all the paragraphs mentioned above, the Amendments update the references to the revised Conceptual Framework. The wording of the objective of financial statements is amended in the revised Conceptual Framework. However, the objective did not change substantively. Accordingly, EFRAG assesses that the amendment will not significantly affect entities' accounting policies.

(iv) Updating the reference to the Conceptual Framework in paragraph 28 of IAS 1. Paragraph 28 of IAS 1 states that when the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those elements in the Conceptual Framework. The Amendments update the reference to the revised Conceptual Framework. As the accrual basis has not changed following the amendment, EFRAG assesses that the change will not have any significant effect on entities' accounting policies.

(v) Updating the reference to the Conceptual Framework in paragraph 89 of IAS 1. Paragraph 89 of IAS 1 states that some Standards require or permit components of other comprehensive income that meet the Conceptual Framework's definition of income or expense to be excluded from profit or loss. The Amendments update the reference to the revised Conceptual Framework. As the paragraph only informs that other Standards may require or permit income or expenses to be excluded from profit or loss and as the requirements in these Standards are restrictive as to what income or expenses to be presented outside profit or loss, EFRAG assesses that the change will not have any significant effect on entities' accounting policies.

(vi) Updating the description of the recognition process in paragraph 31 of IAS 34. Paragraph 31 of IAS 34 states that under the Conceptual Framework, recognition is the process of "incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition". The Amendments update the reference to the revised Conceptual Framework and replace the quotation to "capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of one of the elements of the financial statements". EFRAG assesses that the substance of the current wording and the revised wording is the same, and therefore considers that the update is unlikely to have any significant effect on entities' accounting policies.

(vii) Removing the quotation from the Conceptual Framework in paragraph 33 of IAS 34 on when expenses are recognised in the statement(s) of financial performance. Paragraph 33 of IAS 34 states that the Conceptual Framework "says that expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably". The Amendments remove this part of paragraph 33. Paragraph 33 of IAS 34 also states that the Conceptual Framework does not allow the recognition of items in the statement of financial position which do not meet the definition of assets or liabilities. The Amendments update the reference to the revised Conceptual Framework. EFRAG notes that the manner in which the deleted sentence describes how reliability should affect recognition may be different from the guidance included in the revised Conceptual Framework and some existing IFRS Standards. EFRAG, however, assesses that this is unlikely to have a significant impact on entities' accounting policies for interim financial reporting. This is mainly because IAS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. EFRAG notes that the definitions of assets and liabilities have changed. However, in this regard,

it would only affect the accounting policies of an entity if the issue is not covered by a Standard. This issue is addressed below under (d).

(viii) Updating the reference to the Conceptual Framework in paragraph 5 of SIC-32 *Intangible Assets – Web Site Costs*. Paragraph 5 of SIC-32 states that when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under IAS 1, paragraph 88 and the Conceptual Framework. The reference is updated to the revised Conceptual Framework. Paragraph 88 of IAS 1 states that an entity shall recognise all items of income and expense in a period in profit or loss unless a Standard requires or permits otherwise. A similar statement is included in the revised Conceptual Framework. Previous versions of the Conceptual Framework contained no reference to income or expenses presented outside the statement of profit or loss. EFRAG accordingly assesses that the update of the reference is unlikely to have any effect on entities' accounting policies. EFRAG assesses that entities' accounting policies would already reflect the guidance included in paragraph 88 of IAS 1, which is now also reflected in the Conceptual Framework.

(d) Changes to requirements in IFRS Standards as endorsed in the EU that in limited circumstances could result in significant changes to an entity's accounting policies. These include:

(i) Updating the reference to the Conceptual Framework in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Paragraph 10 of IFRS 6 states that expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The Conceptual Framework and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development. The Amendments update the reference to the Conceptual Framework to the revised Conceptual Framework.

(ii) Updating the reference to the Conceptual Framework in paragraph 11(b) of IAS 8. Paragraph 11(b) of IAS 8 states that in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy. After having referred to and considered the applicability of the requirements in IFRS Standards dealing with similar and related issues, the management shall refer to and consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework. The Amendments update the reference to the revised Conceptual Framework.

7 As EFRAG assesses that the amendments listed above in paragraphs 6(a) and 6(c) above would not have any (significant) effects on entities' accounting policies, EFRAG has not further assessed these amendments against the endorsement criteria. EFRAG considers that these amendments would generally clarify the current guidance and/or make the guidance more consistent.

8 EFRAG assesses that entities refer to the Conceptual Framework to develop accounting policies in accordance with paragraph 11(b) of IAS 8 or for expenditures related to the development of mineral resources in only limited circumstances. In addition, EFRAG notes that when an entity would use the guidance included in the revised Conceptual Framework for the circumstances described in paragraph 6(d)(i) and (d)(ii) above, the outcome may be similar to the current accounting policies developed by an entity.

9 EFRAG further notes that when an entity has to develop an accounting policy for the development expenses mentioned in paragraph 6(d)(i) above or for transactions, other events or conditions for which an IFRS Standard does not specifically apply, the Conceptual Framework is only one of the sources of guidance that should be considered. Moreover, paragraphs 10(a) and (b) of IAS 8 specify that the accounting policies developed in these circumstances result in information that is relevant and reliable. These criteria are mandatory and therefore take precedence over the requirement to refer to and consider the applicability of the guidance in Conceptual Framework.

10 However, EFRAG acknowledges that the Conceptual Framework is used in some cases and that, in some of those cases, an entity's accounting policies may change following the Amendments. The following paragraphs therefore set out EFRAG's assessment of whether accounting policies developed, taking in to consideration the applicable guidance (i.e. the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses) in the revised Conceptual Framework, can reasonably be expected to lead to information that meets the endorsement criteria.

11 In making this assessment, EFRAG notes that an unlimited number of different facts and circumstances may apply when entities develop their accounting policies, making it impossible to determine the specific effects of the Amendments on entities' financial statements. Accordingly, EFRAG has carried out a general assessment of the Amendments against the technical criteria for endorsement in the European Union.

12 EFRAG's assessment on whether the Amendments meet the criteria of understandability, relevance, reliability and comparability (see paragraph 1(b) above) is included in paragraphs 15 - 27 below. The assessment is carried out for each of the main areas identified in paragraph 8 above (i.e. the definitions (paragraphs 15 - 19), recognition criteria (paragraphs 20 - 25) and measurement (paragraphs 26 - 27).

13 EFRAG's assessment on whether the Amendments lead to prudent accounting is included in paragraphs 28 - 30.

14 EFRAG's assessment on whether the outcome is not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU (the Accounting Directive) is based on the assessment of whether it meets all other technical criteria and whether it reflects prudent accounting. This assessment is included in paragraphs 31 - 33.

Definitions

15 The revised Conceptual Framework defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is defined as a right that has the potential to produce economic benefits. A liability is defined as a present obligation of the entity to transfer an economic resource as a result of past events.

Understandability

16 EFRAG assesses that having general definitions of the items to be presented in the financial statements enhances the understandability of the information presented in those statements. EFRAG therefore assesses that the guidance supports financial statements providing understandable information.

Relevance

17 EFRAG assesses that information about the economic resources that are defined as assets and the obligations to transfer an economic resource that are defined as liabilities would be relevant. Information about those resources, the obligations to transfer them and changes in them is relevant for estimating future cash flows, for confirming past predictions and for assessing management's stewardship.

Reliability

18 The definitions do not by themselves ensure that the information provided will be reliable. However, having the definitions will help ensure that the information represents faithfully what it purports to represent or could reasonably be expected to represent. As explained below, the revised Conceptual Framework will also require that an asset or liability is recognised only if recognition results in a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity.

Comparability

19 Having a definition of economic resources and the obligations to transfer such that can be recognised in the financial statements would contribute to comparability as it would result in some degree of similarity of the items presented in entities' financial statements. In this regard, EFRAG, however, notes that comparability may be reduced as a result of existing Standards not automatically being amended to reflect the revised definitions. In addition, not updating the references to the revised Conceptual Framework in relation to IFRS 3 (see paragraph 6(b)(i) above) and for regulatory deferral accounts (see paragraph 6(b)(vi) above) may have some bearing on comparability.

Recognition criteria

Relevance and reliability

20 The revised Conceptual Framework requires that an asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful, i.e. with:

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

(b) A faithful representation of the asset or liability and of any resulting income, expenses or changes in equity.

21 As it appears from paragraph 20(a), applying the revised Conceptual Framework in accordance with the Amendments should result in relevant information.

22 EFRAG considers 'reliability' in the endorsement criteria to mean that the information:

(a) Can be depended on by users to faithfully represent what it purports to represent;

(b) Is complete;

(c) Is neutral;

(d) Is free from material error or bias;

(e) Represents the substance of an economic phenomenon rather than merely its legal form (if this would not represent the underlying economic phenomenon); and

(f) Is prudent.

23 EFRAG observes that these characteristics are generally[1] also those that define a 'faithful representation' in the revised Conceptual Framework. Accordingly, when the revised Conceptual Framework requires a faithful representation of the assets or

[1] In the revised Conceptual Framework, prudence is used in the meaning of caution under conditions of uncertainty. It has been the view of EFRAG that prudence in some circumstances requires asymmetry in Standards in recognition such that assets or income are not overstated and liabilities or expenses are not understated. As prudence in this case is considered for the cases where it is not reflected in requirements in Standards, the two meanings may be similar.

liability and of any resulting income, expenses or changes in equity, it requires 'reliability'.

Comparability

24 In some instances, the recognition criteria included in the revised Conceptual Framework and the supporting guidance will require use of judgement. EFRAG, however, notes that the amendments in paragraph 6(d) only require use of the revised Conceptual Framework in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition and there are no requirements in IFRS Standards dealing with similar and related issues. For these situations, EFRAG assesses that the guidance on recognition in the revised Conceptual Framework results in better comparability than if there would have been no guidance for such cases.

Understandability

25 When an entity has to develop an accounting policy taking into consideration the applicable guidance in the revised Conceptual Framework, EFRAG considers that information would often be understandable if the elements of reliability mentioned above in paragraph 21 are satisfied – particularly that the information can be depended on by users to faithfully represent what it purports to represent and represents the substance of an economic phenomenon rather than merely its legal form (if this would not represent the underlying economic phenomenon). As mentioned above in paragraph 24, EFRAG is, however, also aware that the guidance on recognition may be applied differently between different entities. The limited number of transactions, other events and conditions that would be accounted for using the guidance of the Conceptual Framework could thus be accounted for differently by different entities. EFRAG assesses that this could potentially confuse users and might therefore reduce understandability. EFRAG, however, notes IFRS requires disclosure of significant accounting policies. Users would therefore be able to take any significant differences in accounting policies into account. Overall EFRAG therefore assesses that the amendments related to recognition would result in information that is understandable.

Measurement

Understandability, relevance, reliability and comparability

26 The revised Conceptual Framework requires that a measurement basis must be useful to users of financial statements. To achieve this, the information must be relevant and it must faithfully represent what it purports to represent. In addition, the information provided should be, as far as possible, comparable, verifiable, timely and understandable.

27 As mentioned in paragraphs 22 - 23, EFRAG considers 'faithfully represent what it purports to represent' to be similar to 'reliability'. The revised Conceptual Framework accordingly requires an entity, that would have to apply the revised Conceptual Framework when developing accounting policies in relation to measurement, to develop such policies in a manner that would meet the endorsement criteria. EFRAG assesses that the additional guidance included in the revised Conceptual Framework would generally not contradict these objectives. EFRAG notes that:

(a) Similar to the guidance on recognition, the guidance on measurement is general in its nature. It is therefore possible that two entities that would have to use the revised Conceptual Framework to develop accounting policies for similar items would develop different policies in relation to measurement. This could harm comparability. The guidance included in the revised Conceptual Framework on measurement is nevertheless much more detailed than in previous versions of the Conceptual Framework and seems likely to result in better comparability than no guidance.

(b) The guidance of the revised Conceptual Framework suggests that different measurement bases may result in the most useful information in different circumstances. EFRAG considers that the use of measurement bases that reflect the way and assets (and liabilities) are used in business activities would not reduce comparability.

Prudence

28 In relation to the amendment to paragraph 11(b) of IAS 8 (see paragraph 6(d)(ii) above), EFRAG notes that paragraph 10(b)(iv) of IAS 8 requires that the accounting policy an entity would develop by applying the revised Conceptual Framework has to result in financial statements that are prudent. The Amendments will not change this. The accounting policies an entity would develop following the Amendments should thus result in financial statements that are prudent.

29 In relation to the amendments to IFRS 6 (see paragraph 6(d)(i) above), EFRAG notes that the definition of an asset in the revised Conceptual Framework may result in more items being considered assets. However, before these are recognised, they should meet the recognition criteria described above in paragraph 20. These criteria refer directly to 'faithful representation' which include that caution is applied under conditions of uncertainty ('cautious prudence').

30 EFRAG's overall assessment is therefore that the Amendments should result in information that is prudent.

True and Fair View Principle

31 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

32 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards. In particular, EFRAG notes that the Amendments will introduce references to the revised Conceptual Framework which reflect the thinking underpinning, in particular, the most recent and future IFRS Standards. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

33 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

34 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) Whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Standards as a whole;

(b) The costs and benefits associated with the Amendments; and

(c) Whether the Amendments could have an adverse effect to the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

3 EFRAG notes that the Amendments are designed to:

(a) Update most of the references in IFRS Standards to the Conceptual Framework to the revised Conceptual Framework. The revised Conceptual Framework reflects the principles underlying recent IFRS Standards and will be used when preparing IFRS Standards in the future. Updating the references will accordingly result in increased consistency in financial reporting. This update also includes updating or removing quotations from the Conceptual Framework.

(b) Clarify which version of the Conceptual Framework references included in IFRS Standards are to. These changes do not have any impact on the quality of financial reporting but may result in IFRS Standards being easier to read.

4 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting.

EFRAG's initial analysis of the costs and benefits of the Amendments

5 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. One of the factors that has considered in forming this view is EFRAG's assessment that the Amendments will not affect most entities' accounting policies. Therefore, the approach that EFRAG has adopted has been to carry out initial assessments of the likely costs and benefits of implementing the Amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in light of the comments received.

Cost for preparers

6 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

7 EFRAG notes that the Amendments will lead to costs for preparers both from reviewing certain of their accounting policies, and changing those policies when necessary, and from any resulting policy changes in their financial statements. Entities would have to review their accounting policies to assess whether parts are based on the Conceptual Framework because of the reference in paragraph 11(b) of IAS 8. If this would be the case, the entity will have to assess whether those parts would have been different had the equivalent guidance in the revised Conceptual Framework been used. If so, the entity would have to amend its accounting policy and, subject to the relief referred to in paragraph 9 below, apply that change retrospectively. The field work carried out by the IASB to assess the costs for preparers of the Amendments indicates that most preparers will not be affected by the Amendments as they do not develop accounting policies by applying the reference to the Conceptual Framework in IAS 8 because many transactions are either:

(a) Covered by existing IFRS Standards;

(b) Not covered by the existing IFRS Standards, but entities are using other sources of guidance referred to in IAS 8 than the Conceptual Framework; or

(c) Exempted from paragraph 11 of IAS 8 by IFRS Standards.

8 In addition, when accounting policies are developed by applying the reference to the Conceptual Framework, the outcome could often be similar under the previous Conceptual Framework and the revised Conceptual Framework.

9 For the relatively few transactions that would be affected, EFRAG assesses that a retrospective application could be costly to apply depending on the circumstances. Particularly, EFRAG assesses that retrospective application of the amendments to IAS 8 mentioned above in paragraph 6(d)(ii) of Appendix 2 could be costly. The transition requirements, however, limit the cost of preparers significantly by requiring retrospective application only to the extent that it would not be impracticable or would not involve undue cost or effort.

10 While there would be costs related to changing accounting policies, the ongoing cost of applying any new accounting policies could be either higher or lower than the costs of applying the current accounting policies.

11 Overall, EFRAG's assessment is therefore that the Amendments may result in some initial costs for some preparers.

Costs for users

12 To the extent that the Amendments will result in entities changing accounting practice for certain transactions, events or conditions, the Amendments will result in some costs for users.

13 Users will have to understand the impact of the changes on their analyses and they may have to amend their systems and calculations. In cases in which the entity has not applied the Amendments retrospectively (because it would be impracticable or involve undue cost or efforts), users may also incur costs when adjusting the information of prior periods to be comparable with the new information.

14 Similar to the cost for preparers, the ongoing costs for users could be either higher or lower than the current costs. EFRAG, however, does not expect that any increase or decrease in ongoing costs to be significant.

15 Overall, EFRAG's assessment is therefore that that the Amendments may result in some initial costs for users to the extent that the Amendments will result in entities changing accounting policies for certain transactions.

Benefits for preparers and users

16 As previously noted, for most entities the Amendments will likely not have any effect. When the Amendments do have an effect, entities will develop accounting policies taking into consideration definitions and concepts that better reflect the current thinking reflected in recent IFRS Standards. In addition, as the revised Conceptual Framework includes more guidance, particularly in relation to measurement, it could be expected that the accounting information resulting from accounting policies based on the revised Conceptual Framework will be more comparable than currently.

17 Users would benefit from accounting information based on more recent thinking (which could be assumed to result in information that is more relevant and reliable). In addition, users would benefit from the enhanced comparability. The enhanced comparability is not only a result of the additional guidance included in the revised Conceptual Framework. It is also a result of accounting policies developed by entities being aligned with the principles underlying recent and future IFRS Standards.

18 As a result of users benefitting from the Amendments, EFRAG assesses that the improved accounting information would also reduce the cost of capital for entities.

Conclusion on the costs and benefits of the Amendments

19 Taking into account that the requirements should only be applied retrospectively to the extent that this would not be impracticable and not involve undue cost or efforts, EFRAG's overall assessment is that the overall benefits of the Amendments are likely to outweigh the associated costs.

Conclusion

20 EFRAG considers that the Amendments will generally bring improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

21 EFRAG has not identified that the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.

22 Furthermore, EFRAG has considered whether there are any other factors that would mean endorsement is not conducive to the public good and has not identified any such factors.

23 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.