Appendix - IASB Conceptual Framework

What is the Conceptual Framework?

A practical tool that assists

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<tr>
<th>Board</th>
<th>Preparers</th>
<th>All</th>
</tr>
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<tbody>
<tr>
<td>to develop Standards</td>
<td>to develop consistent accounting policies</td>
<td>to understand and interpret Standards</td>
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Addresses fundamental issues

- What is the objective of financial reporting?
- What makes financial information useful?
- What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

The Conceptual Framework sets out the fundamental concepts of financial reporting that guide the IASB in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction; and it helps stakeholders more broadly to understand the Standards better. We expect it to be rare for companies to use the Conceptual Framework to select their accounting policies in the absence of specific requirements in the Standards. Companies will need to apply any changes in accounting policies retrospectively.

Examples were a company may use the Conceptual Framework may include:

- determining whether a transaction with an owner is in their capacity as an owner or a trading partner
- prepayments for future services that do not meet the definition of property, plant and equipment, intangibles or leases.

The Conceptual Framework underpins the Standards but does not override any Standard or any requirements in a Standard.

The IASB released a revised Conceptual Framework in March 2018. The IASB will start using the revised Conceptual Framework immediately, whereas companies will use it from 2020.

The Conceptual Framework sets out:

- the objective of general purpose financial reporting
- the qualitative characteristics of useful financial information
- a description of the reporting entity and its boundary
- definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions
- criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition)
- measurement bases and guidance on when to use them
- concepts and guidance on presentation and disclosure
- concepts relating to capital and capital maintenance.
Why change?

The previous Conceptual Framework was issued in 1989 and partly revised in 2010. It was incomplete and needed improvement – in particular:

- it was identified as a priority by stakeholders as part of the 2011 Agenda Consultation
- there were gaps that needed to be filled – for example, guidance on measurement, presentation and disclosure, including guidance on the use of profit/loss and other comprehensive income
- there was a need to update some guidance – for example, the definitions of assets and liabilities
- there was a need to clarify some guidance – for example, the role of measurement uncertainty and the roles of stewardship and prudence in financial reporting.

In revising the Conceptual Framework the IASB has sought a balance between providing high-level concepts and providing enough detail for the Conceptual Framework to be useful to the IASB and others.

What’s changed?

<table>
<thead>
<tr>
<th>New</th>
<th>Updated</th>
<th>Clarified</th>
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</thead>
<tbody>
<tr>
<td>Measurement</td>
<td>Concepts on measurement, including factors to be considered when selecting a measurement basis</td>
<td>Definitions of an asset and a liability</td>
</tr>
<tr>
<td>Presentation and disclosure</td>
<td>Concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income</td>
<td>Recognition</td>
</tr>
<tr>
<td>Derecognition</td>
<td>Guidance on when assets and liabilities are removed from financial statements</td>
<td></td>
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The revised Conceptual Framework is more comprehensive than the old one. However, most of the concepts are not new – it codifies the IASB’s thinking adopted in recent standards (for example, IFRS 16 Leases).

The granularity of guidance differs. Some chapters only highlight a list of choices for the IASB to apply when setting Standards – for example, measurement, and presentation and disclosures. Conversely other chapters provide more direction on how the IASB should make those choices – for example, assets and liabilities. The distinction between liabilities and equity has been removed from the revised Conceptual Framework. It will be dealt with as a separate project.

The main changes to the revised Conceptual Framework’s principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements.

Some concepts are entirely new – for example, the practical ability approach to liabilities. It is unclear what challenges the IASB (and preparers) will encounter as new standards are developed.
<table>
<thead>
<tr>
<th>Change</th>
<th>Impact and challenges</th>
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<tbody>
<tr>
<td>New ‘bundles of rights’ approach to assets</td>
<td>A physical object can be ‘sliced and diced’ from an accounting perspective. For example, in some circumstances a company would book as an asset a right to use an aircraft, rather than an aircraft itself. The challenge will be determining to what extent an asset can be split into different rights and the impact on recognition and derecognition.</td>
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<tr>
<td>New ‘practical ability’ approach for recognising liabilities</td>
<td>The old recognition thresholds are gone – a liability will be recognised if a company has no practical ability to avoid it. This may bring some liabilities on the balance sheet earlier than at present. However, if there is uncertainty over existence and measurement or a low probability of outflows, then this may result in no or delayed recognition in some cases. The challenge will be determining which future actions/costs a company has no ‘practical ability’ to avoid.</td>
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<tr>
<td>New control-based approach to derecognition</td>
<td>A company will take an asset off balance sheet when it loses control over all or part of it – i.e. the focus is no longer on the transfer of risks and rewards. The challenge will be determining what to do if the company retains some rights after the transfer.</td>
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Further details of changes to the *Conceptual Framework* may be found in the [IASB Project Summary](#).

**Exemptions**

**IFRS 3 Business Combinations**

To avoid unintended consequences, acquirers are required to apply the definitions of an asset and a liability and supporting concepts in the previous, rather than the revised, *Conceptual Framework*. The IASB plans to assess how IFRS 3 can be updated without unintended consequences.

**Regulatory account balances**

When developing accounting policies for regulatory account balances applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, entities are required to refer to the previous, rather than the revised, *Conceptual Framework*. This avoids entities revising those accounting policies twice within a short period: once for the revised *Conceptual Framework* and again when a revised Standard on rate-regulated activities is issued.

18RU-001 Special purpose on life-support? – Applying the IASB’s Conceptual Framework in Australia (Appendix)

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