Audit Committee News
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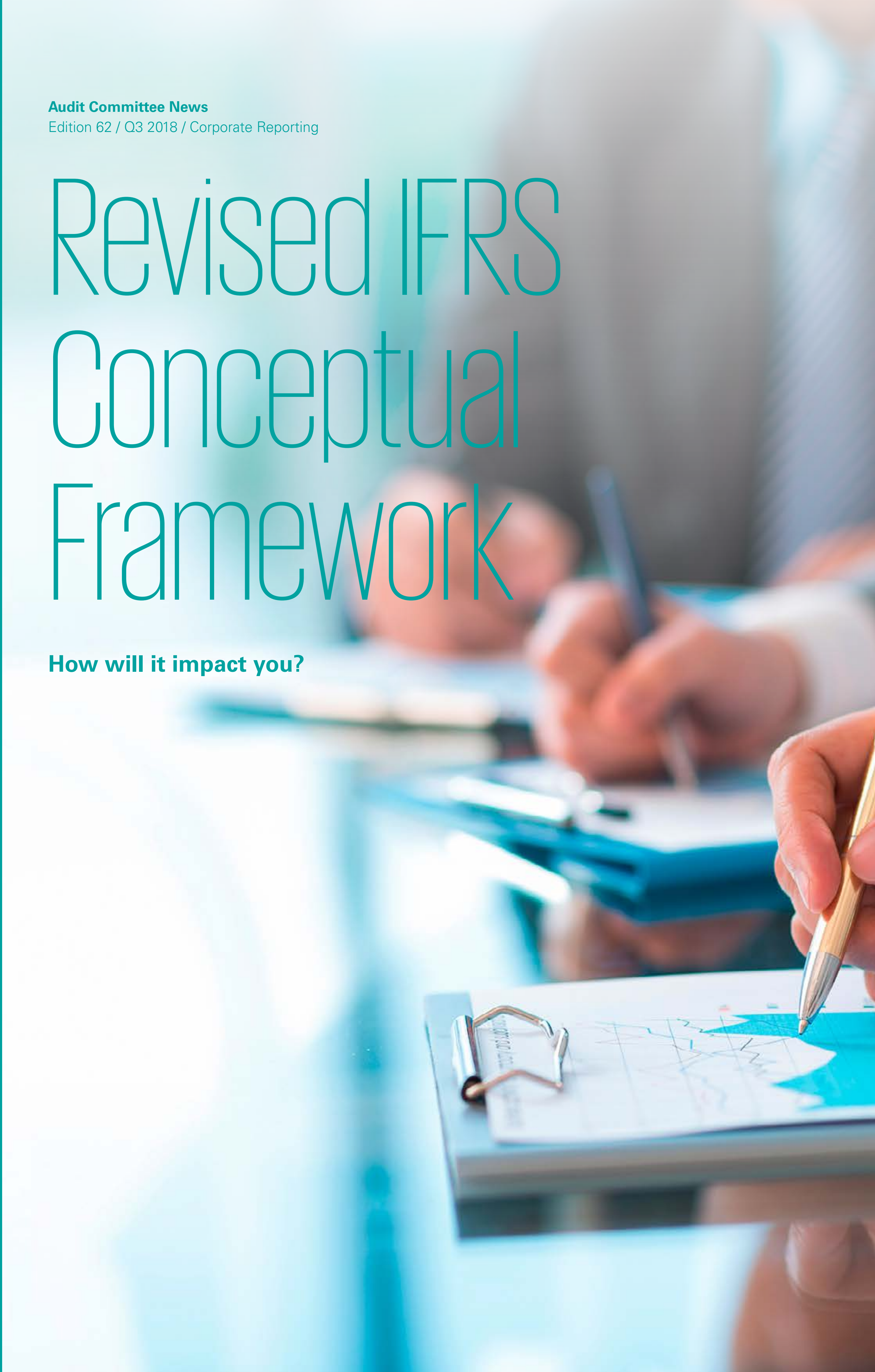
Revised IFRS Conceptual Framework

How will it impact you?



The Conceptual Framework for Financial Reporting ("Conceptual Framework" or "Framework") is the foundation of IFRS. It broadly discusses the concepts underlying the preparation and presentation of IFRS financial statements and primarily serves as a basis for the International Accounting Standards Board (IASB) to develop new or revised IFRS accounting standards. It is not a Standard and does not override the requirements of individual IFRSs.

The Conceptual Framework also provides a point of reference for preparers of IFRS financial statements when selecting their accounting policies in the absence of specific IFRS requirements dealing with the subject matter under consideration or similar and related issues.

The IASB released its revised Framework at the end of March 2018. This version replaces the Framework issued in 2010 and has started being used by the IASB immediately after its release.

Limited direct impact on entities reporting under IFRS

To achieve transition for preparers who develop accounting policies by reference to the Framework, the IASB issued Amendments to References to the Conceptual Framework in IFRS Standards together with the revised Framework. These amendments are effective in 2020.

Instances where companies use the Conceptual Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements are not common in practice. In those rare cases, companies should review their policies and apply the new guidance retrospectively as of 1 January 2020, unless a scope out applies.

Impact on IASB's standard setting activities will take some time

The aim of the revised Framework being to provide the IASB with a full set of principles for future standard setting, it is more comprehensive than the old one. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures.

However, most of the concepts are not new. The revised Framework largely codifies the IASB's thinking adopted in recent standards.

Given that it does not override the requirements of individual IFRSs, any inconsistencies between the latter and the revised Framework will be subject to the usual IASB due process. As a result, the overall impact on standard setting may take some time to crystallize.

Key changes and future challenges

Besides confirming the IASB's recent trajectory in developing IFRSs, the revised Framework also introduced

some new, untested concepts – such as the "practical ability" approach to liabilities (see below), which might set a new direction for IFRS in the future.

As such concepts have not been tested as part of any recent standard-setting process, it is unclear what challenges the IASB will encounter when using them to develop standards in the future. It is also unclear what challenges preparers of financial statements will face after those future standards become effective.

The main changes to the Framework's principles have implications for how and when assets and liabilities are recognized in and derecognized from the financial statements:

Change	Impact and challenges
New "bundles of rights" approach to assets	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.
New "practical ability" approach for recognizing liabilities	The old recognition thresholds are gone – a liability will be recognized 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.
New control-based approach to derecognition	A company will take an asset off balance sheet when it loses control over 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.

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