IFRS Alert

IASB issues a revised 'Conceptual Framework for Financial Reporting'
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Executive summary

The International Accounting Standards Board (IASB) has published a revised 'Conceptual Framework for Financial Reporting' (Conceptual Framework). The Conceptual Framework describes the objective of, and the concepts for, general purpose financial reporting. Although it is not a Standard and will not immediately change or override any existing Standards, it might affect entities that develop or select accounting policies in accordance with the previous version of the Conceptual Framework that was issued in 2010.

Background

The Conceptual Framework is a practical tool that assists the IASB in developing and revising Standards that are based on consistent concepts. It also helps preparers to develop consistent accounting policies when no Standard applies or when a Standard allows a choice of accounting policy.

The original Conceptual Framework was issued in 1989 and was updated on several occasions, the last being in 2010. However, despite efforts to make it an overarching set of concepts, preceding versions still lacked guidance in some areas or contained guidance that was not as clear as desired.

A public consultation on the IASB's workplan in 2012 therefore highlighted the need for a revision of the 2010 Conceptual Framework and the project was added to the IASB's agenda. Before issuing a revised Conceptual Framework in 2018, the IASB sought input by publishing a Discussion Paper in 2013 and an Exposure Draft in 2015.

Main issues addressed by the revised Conceptual Framework

The revised Conceptual Framework now provides a more complete, clearer and updated set of concepts.

It now contains guidance on measurement, financial performance, derecognition and the reporting entity—areas that previously contained no or only very little guidance. It also clarifies some existing guidance by for example reintroducing the concept of prudence or improving the concept of substance over form.

The revised Conceptual Framework also updates some existing concepts like the definitions of assets and liabilities. Although both definitions worked well in the past, the revised definitions now focus more on describing an asset as an economic resource and a liability as an obligation to transfer an economic resource rather than describing both in terms of a flow of benefits.

Alongside the revised Conceptual Framework the IASB has published 'Amendments to References to the Conceptual Framework in IFRS Standards'. This publication updates nearly all of the references to previous versions with references to the 2018 Conceptual Framework.

However, some references have not been updated or allow preparers to continue applying the 2010 Conceptual Framework. To avoid unintended consequences, preparers are required to apply the definitions of assets and liabilities from the 2010 Conceptual Framework when accounting for business combinations under IFRS 3.

Also, preparers will continue using the 2010 definitions of assets and liabilities when accounting for regulatory account balances. This means preparers will not have to change their accounting for rate-regulated assets and liabilities twice within a short period of time as the IASB is planning to replace the interim Standard IFRS 14 'Regulatory Deferral Accounts' in the near future.

Effective date and transition

The Conceptual Framework is not a Standard and will not change or override any existing Standards. It is primarily a tool for the IASB to help them develop Standards based on consistent concepts. Over the last few years, the IASB has already started applying some of the new or revised concepts when developing or revising Standards.

However, entities that develop accounting policies using the Conceptual Framework, or that are in any other way affected by the amendments to IFRS Standards, will have to apply the changes from 1 January 2020.

Grant Thornton International Ltd comment

We welcome the publication of the IASB's long-running Conceptual Framework project and think it is a considerable improvement to the previous version. We understand that this is a living document that will be amended from time to time and we are looking forward to seeing more work on the definitions of equity and other comprehensive income.