

Basis for Conclusions on AASB CF 2013-1

This Basis for Conclusions accompanies, but is not part of, the Framework. The Basis for Conclusions was originally published with Accounting Framework AASB CF 2013-1 Amendments to the Australian Conceptual Framework (December 2013).

Background to the Amendments Introduced Through AASB CF 2013-1

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) considerations in developing AASB CF 2013-1. Individual Board members gave greater weight to some factors than to others.
- BC2 The amendments to the *Framework for the Preparation and Presentation of Financial Statements (Framework)* result from proposals that were included in AASB Exposure Draft ED 164 *An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* (AASB ED 164) published in June 2008. AASB ED 164 incorporated the International Accounting Standards Board's (IASB) May 2008 Exposure Draft of the same name.
- BC3 The IASB has been undertaking a review of its conceptual framework for several years. Consistent with the AASB's policy of IFRS adoption, the AASB has been closely monitoring the work of the IASB. In September 2010, the IASB issued a revised IASB *Conceptual Framework for Financial Reporting (IASB Conceptual Framework)* containing two new chapters – Chapter 1: *The objective of general purpose financial reporting* and Chapter 3: *Qualitative characteristics of useful financial information*. The revised IASB *Conceptual Framework* includes a 'placeholder' for Chapter 2: *The reporting entity* and Chapter 4, which carries over the text of the IASB's *Framework for the Preparation and Presentation of Financial Statements*¹ (IASB *Framework* 2001) that was not superseded by Chapters 1 and 3 and therefore deals with concepts not yet reconsidered by the IASB. Further revised chapters are planned – see paragraph BC4 below.
- BC4 As part of its review, the IASB has also issued:
- (a) in March 2010, IASB Exposure Draft ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity* (incorporated into AASB Exposure Draft ED 193 of the same name, also issued in March 2010); and
 - (b) in July 2013, IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (incorporated into AASB Invitation to Comment ITC 29 *A Review of the IASB's Conceptual Framework for Financial Reporting*, also issued in July 2013). The Discussion Paper sets out the IASB's preliminary views on concepts relating to the elements of financial statements, recognition and derecognition, measurement, presentation and disclosure, and the IASB's plan to progress its reporting entity proposals.
- BC5 In addition to the aspects of a conceptual framework noted in paragraph BC4(b) above, the IASB Discussion Paper DP/2013/1 also notes that while the IASB does not intend to fundamentally reconsider Chapter 1 and Chapter 3 as issued in September 2010, changes to these chapters may be necessary if work on the other aspects highlights areas in these chapters that require clarification or amendment. The IASB has also invited comment where respondents believe that changes are necessary to the existing chapters.

Application of the Amendments to For-Profit Entities

- BC6 The Board decided to make Chapters 1 and 3 of the September 2010 IASB *Conceptual Framework* applicable to for-profit entities, consistent with its IFRS-adoption policy. The Board decided to do this pragmatically by amending the *Framework* for the revised guidance rather than issuing a new framework document, pending completion of the IASB project.
- BC7 The Board considered whether to introduce additional guidance in respect of for-profit entities in the public sector and decided that additional guidance is not necessary at this time.

¹ The IASB's *Framework for the Preparation and Presentation of Financial Statements* (1989) was adopted by the IASB in April 2001.

Application of the Amendments to Not-for-Profit Entities

- BC8 As part of its due process, through AASB ED 164, the AASB invited constituents to comment on the issues that would need to be considered if the proposed concepts relating to the objective of financial reporting and the qualitative characteristics of useful financial information were also to be applied to not-for-profit entities. Consistent with comments made in the joint report *A Report on the application to not-for-profit entities in the private and public sectors* (July 2008)² on the not-for-profit implications of the IASB Exposure Draft on these concepts, some respondents to AASB ED 164 commented that more emphasis would need to be given to accountability or stewardship, and less to reporting information for assessing cash flows, for the concepts to be suitable for such entities. Respondents were also concerned that a user group focussed on capital providers was too narrow to be a proxy for the common information needs of users of general purpose financial reports of not-for-profit entities.
- BC9 The Board noted that the current focus of the IASB is on business entities in the private sector and that the IASB appears to no longer intend to consider, in the manner it initially proposed, the applicability of its revised concepts to not-for-profit entities in the private sector. In light of this, the Board decided to make Chapters 1 and 3 of the September 2010 IASB *Conceptual Framework* applicable to not-for-profit entities at the same time as for-profit entities, to be consistent with its IFRS-adoption and transaction-neutral policies. However, having regard to the feedback received on AASB ED 164 (see paragraph BC8), the Board decided to include additional guidance in respect of not-for-profit entities to the extent that matters are not adequately addressed by the IASB in Chapters 1 and 3 (see paragraphs BC11–BC15 below).
- BC10 After the IASB has completed its review of its conceptual framework, the AASB intends reviewing the not-for-profit guidance included in its conceptual framework. As part of this process, the AASB will have further regard to the International Public Sector Accounting Standards Board's (IPSASB) decisions about its conceptual framework, particularly where the IPSASB's decisions are complementary to the IASB's decisions.³

Additional Guidance for Not-for-Profit Entities

- BC11 The Board noted comments about the importance of accountability of management in respect of not-for-profit entities, and considered whether to make specific reference to the accountability (or stewardship) of management for the resources entrusted to it, similar to statements made in superseded paragraph 14 of the *Framework* and in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* (e.g. paragraphs 14, 27 and 44). The Board noted the IASB's acknowledgement of the role of stewardship and its rationale for not using the term 'stewardship' within Chapter 1. Paragraphs BC1.27 and BC1.28 of the IASB's Basis for Conclusions on Chapter 1 of the IASB *Conceptual Framework* (September 2010) state:
- BC1.27 ... The Board did not intend to imply that assessing prospects for future cash flow or assessing the quality of management's stewardship is more important than the other. Both are important for making decisions about providing resources to an entity, and information about stewardship is also important for resource providers who have the ability to vote on, or otherwise influence, management's actions.
- BC1.28 The Board decided not to use the term *stewardship* in the chapter because there would be difficulties in translating it into other languages. Instead, the Board described what stewardship encapsulates. Accordingly, the objective of financial reporting acknowledges that users make resource allocation decisions as well as decisions as to whether management has made efficient and effective use of the resources provided.
- BC12 The Board noted that while the provision of information for accountability purposes is an important function of general purpose financial reporting, including in relation to not-for-profit entities, the rendering of accountability by reporting entities through general purpose financial reporting can be regarded as encompassed by the broader objective of providing information useful for making decisions about the allocation of resources. This is on the basis that users ultimately require accountability-related information for resource allocation decisions. Accordingly, in response to constituent feedback on AASB ED 164 in relation to accountability (see paragraph BC8), the Board concluded that the additional guidance it has included in respect of not-for-profit entities is consistent with the view that management accountability is

2 The Report was prepared by the Chairs and senior staff of the Australian Accounting Standards Board, Canadian Accounting Standards Board, New Zealand Financial Reporting Standards Board and the United Kingdom Accounting Standards Board.

3 In January 2013, the IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* addressing some aspects of its conceptual framework: the role and authority of the conceptual framework, the objective and users of general purpose financial reports, qualitative characteristics, and the reporting entity. Chapters addressing other concepts, including the definition and recognition of elements of financial statements, measurement, and presentation, are being developed by the IPSASB.

encompassed within the objective of general purpose financial reporting of not-for-profit entities as described in the *Framework*.

- BC13 In particular, the Board decided to develop additional guidance for not-for-profit entities that would:
- (a) identify the broad range of users of general purpose financial reports of not-for-profit entities (see paragraph AusOB2.1); and
 - (b) adequately acknowledge that such users of general purpose financial reports of not-for-profit entities have common information needs relating to:
 - (i) how well the entity is meeting its objectives that are not primarily related to cash generation (see paragraphs AusOB3.1 and AusOB18.1); and
 - (ii) the ability of the entity's available resources to deliver future goods and services (see paragraph AusOB3.1).

In developing this not-for-profit specific guidance, the Board gave consideration to guidance included in the IPSASB conceptual framework chapters published in January 2013.

- BC14 With regard to paragraph BC13(a), consistent with the IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (and superseded paragraph 17 of SAC 2), the Board decided to particularly identify taxpayers as one of the users of general purpose financial reports of not-for-profit entities in paragraph AusOB2.1. As noted by the IPSASB, taxpayers usually provide resources to governments and other public sector entities involuntarily. In addition, as recipients of goods or services from public sector entities, taxpayers often do not have the discretion to choose an alternative supplier of those goods and services. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of goods or services by a public sector entity or whether to purchase or consume the goods or services provided. However, they can make decisions about their voting preferences and representations they make to elected officials or other representative bodies based on information contained in general purpose financial reports – these decisions may have resource allocation consequences for certain not-for-profit entities.

- BC15 With regard to paragraph BC13(b), the Board concluded that the common information needs of users of general purpose financial reports of not-for-profit entities include the entity's ability to achieve both its financial and non-financial objectives. For example, taxpayers may be interested in whether a not-for-profit entity in the public sector is delivering the services expected of it, that is, whether it is achieving its objectives and doing so economically and efficiently. Other resource providers, such as creditors, may principally be interested in the entity's ability to generate future cash inflows for timely payment of the entity's obligations to them; however, they may be indirectly concerned about the extent to which the entity is achieving its non-financial objectives, since the ability of the entity to generate future cash inflows will depend on its performance in this regard. The Board decided that it was important for such common user needs to be explicitly acknowledged in the amended chapters.

Other Significant Issues

Status of the *Framework*

- BC16 The Board decided to take this opportunity to amend paragraph Aus1.1 of the *Framework* to remove the references to superseded or withdrawn pronouncements. Policy Statement 5 *The Nature and Purpose of Statements of Accounting Concepts* was withdrawn with effect for reporting periods beginning on or after 1 January 2005. Professional Statement APS 1 *Conformity with Accounting Standards and UIG Consensus Views* (which superseded APS 1 *Conformity of Accounting Standards*) has been superseded by Professional Standard APES 205 *Conformity with Accounting Standards* (December 2007), which does not make explicit reference to the non-mandatory status of the *Framework* or the Statements of Accounting Concepts.

Consequences for SAC 2

- BC17 Superseded paragraph Aus14.1 of the *Framework* noted that a more detailed discussion of the objective of financial statements is provided in SAC 2. The Board decided that SAC 2 should be superseded as it is no longer necessary in light of the extensive discussion of the objective of general purpose financial reporting in paragraphs OB1 to OB21.

Status of SAC 1

- BC18 The Board decided that the reporting entity concept expressed in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* still has its place in Australia. The concept is currently used to help identify those entities that must apply Australian Accounting Standards. Accordingly, the status of SAC 1 is retained (at least for now) in the Australian conceptual framework. The AASB intends to consider the manner in which to incorporate the IASB's forthcoming chapter on Reporting Entity (see paragraph BC4(a)) into the Australian conceptual framework in due course. This consideration would have regard to the interaction with other aspects of the IASB's Conceptual Framework project, other AASB projects (including reconsideration of the application of the reporting entity concept in Australia), and the AASB's approach to adopting IASB content for application by not-for-profit entities.

Effective Date of the Amendments

- BC19 The Board decided that the amendments introduced by AASB CF 2013-1 should be applicable to general purpose financial statements of periods ending on or after the date of approval of the pronouncement, with allowance for earlier application.
- BC20 The Board would not expect the incorporation of Chapters 1 and 3 of the IASB *Conceptual Framework* into the *Framework* to cause entities to change their accounting policies adopted under the existing *Framework*. Therefore, the application date provisions of these amendments would not be expected to have any practical significance. Nevertheless, the Board decided to identify an application date for these amendments and allow for earlier application, to avoid doubt about these aspects and for consistency with the application provisions of Accounting Standards.