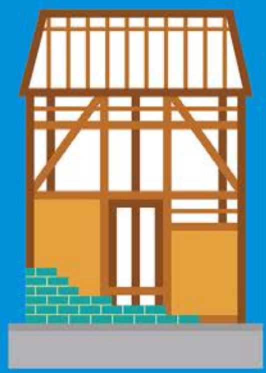
KPMG

Conceptual Framework – The new foundation for IFRS

29 March 2018



"This largely confirms the existing trajectory of the IASB's development of accounting standards."

Reinhard Dotzlaw
KPMG's global IFRS leader

The revised Framework will underpin the IASB's thinking when developing new standards

The *Conceptual Framework for Financial Reporting* is the foundation on which the IASB develops new accounting standards. The Board has just released its revised Framework, which is effective immediately and contains changes that will set a new direction for IFRS in the future.

What's changed?

The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. 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 codifies the Board's thinking adopted in recent standards.

The granularity of guidance differs. Some chapters – such as measurement, and presentation and disclosures – only highlight a list of choices for the Board to apply when setting standards. Conversely, other chapters – such as assets and liabilities – provide more direction on how the Board should make those choices.

Some controversial areas in financial reporting – such as the distinction between liabilities and equity – have been removed from the revised Framework, and are being dealt with in separate projects.

What are the challenges?

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

Some of the concepts in the revised Framework are entirely new – such as the 'practical ability' approach to liabilities. As they have not been tested as part of any recent standard-setting process, it is unclear what challenges the Board 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.

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 recognising liabilities	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.
New control-based approach to derecognition	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.

Check your policies

The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them.

It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs (e.g. regulatory account balances).

Type 'KPMG IFRS toolkit' into Google to access more of our insights on how to apply IFRS.

kpmg.com/ifrs