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ED/2015/4 Updating References to the Conceptual Framework - Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework - Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32*. We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We agree in general with the proposal to update references from the standards to the revised Conceptual Framework on its finalisation. However, we think that more analysis of the practical effects is needed in a few cases. We also question whether it is in accordance with paragraphs 10 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Our responses to the ED's Invitation to Comment are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Global Head of IFRS, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

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Responses to Invitation to Comment questions

Question 1 - Replacing references to the Conceptual Framework

The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective. Do you agree with the proposed amendments? Why or why not?

We agree that most of these references should be updated as proposed. However, we have concerns in relation to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

IAS 8 Accounting Policies, Changes in Accounting Estimates
Our concern regarding IAS 8 relates to the implications of the proposed amendment to paragraph 11 of that Standard. Paragraph 11 sets out the hierarchy of sources that management refers to in developing an accounting policy when no IFRS specifically applies to a transaction, other event or condition. The proposed change would require entities to reassess accounting policies developed under the existing guidance, and amend them if they are not consistent with the revised Framework. The Basis for Conclusions explains that the Board has considered and tentatively rejected an alternative approach allowing entities to retain their existing accounting policies in such cases.

Part of our concern is that it may be difficult to determine which policies need to be changed. The overarching criteria for selecting a policy are set out in paragraph 10 of IAS 8 and refer to relevance and reliability of the resulting information. The ED does not propose to change these criteria. When entities apply paragraph 10 they consider not only the Framework but also the requirements in IFRSs dealing with similar and related issues. Accordingly, the Framework is not the sole source of guidance; the extent to which entities rely on its guidance for developing accounting policies varies case-by-case. Cases may also arise in which the previous policy is not consistent with the new Framework but is consistent with another IFRS that deals with similar issues (because that IFRS has not been updated to be consistent with the new Framework).

We also find it curious that the Board argues against allowing retention of previous accounting policies on the grounds of avoiding inconsistency with the Framework. This seems at odds with the fact that a number of IFRSs and IASs may not be consistent with the revised Framework but will remain effective.

For these reasons we encourage the Board to reconsider allowing some form of relief from reassessing previous accounting policies developed by reference to the existing Framework. Should the Board decide against this we believe that a fuller analysis of the expected practical effects should be undertaken.

IFRS 6 Exploration for and Evaluation of Mineral Resources
The proposed amendment to IFRS 6 would result in an entity referring to both the new Framework and to IAS 38 *Intangible Assets* when accounting for development costs. However, BC5-6 explains that the Board does not propose to update IAS 38's definition of an asset to conform with the definition in the new Framework. An entity would then be required to refer to two definitions of an asset, which seems confusing and contradictory. We therefore suggest that the reference (in paragraph 10 of IFRS 6) to the Framework is removed instead of being updated.

Question 2 – Effective date and transition

The IASB proposes that:

(a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted.
(b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.

Do you agree with the proposed transition provisions and effective date? Why or why not?

We agree with the proposal to apply the amendments to IFRS 3 prospectively in order to avoid a need to restate previous business combinations.

We question whether transition provisions are needed in cases in which the revised cross-references are informational and not expected to have any practical effect on an entity's accounting. We expect that the changes would have a practical effect only in cases such as IFRS 3 when an entity is explicitly required to apply definitions or other concepts in the Framework. In other cases we question whether transition provisions are necessary. For example:

- IFRS 2 *Share-based Payment:* we doubt that the change to the footnote to the definition of an equity instrument would have any practical effect on the application of IFRS 2
- IFRS 4 *Insurance Contracts:* the effect of the change would be that an entity will not be required to consider the new Framework in developing aspects of its accounting policy for certain insurance activities. Currently an entity is relieved from considering the existing Framework. We find it difficult to envisage circumstances in which this change would require an entity to amend its accounting policies.

More generally, we suggest that more analysis is needed of the expected practical effect of these changes to identify whether transition provisions are necessary or appropriate.

Question 3 – Other comments

Do you have any other comments on the proposals?

We have no other comments.