In our view the description above used in the DP supports our proposal to address the control notion and the entity aspect as part of recognition and derecognition criteria in the revised *Conceptual Framework*.

Additionally, in light of clarification we think it is important to emphasize that the transfer of all risk and rewards would result in the loss of control. Differences between the control approach and the risk-and-reward approach would only occur if the entity retains a component that exposes the entity disproportionately to the remaining risks or rewards arising from the previously recognised asset or liability as stated in paragraph 4.36 in the DP.

As another aspect, we believe additional high-level derecognition guidance in the revised *Conceptual Framework* would be beneficial to address scenarios in which an entity is selling an asset but immediately repurchases a similar asset. Other scenarios include the modification of contractual agreements. We observe that such modification scenarios for assets and liabilities often raise questions in practice whether such transactions would require derecognition. We note the discussion in paragraphs 4.34-4.49 in the DP and would encourage the IASB to develop more guidance in the *Conceptual Framework* regarding the selection of a specific recognition approach.

IASB DP – Question 10: Section 5 Definition and distinction between liability and equity elements

The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1-5.59 of the DP. In the IASB's preliminary view:

(a) the *Conceptual Framework* should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

(b) the *Conceptual Framework* should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:

  (i) obligations to issue equity instruments are not liabilities; and

  (ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a) of the DP).

(c) an entity should:

  (i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure or an allocation of total equity.

  (ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.

(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.

Do you agree? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the IASB's preliminary view not to change the existing definition of equity in the *Conceptual Framework*, i.e. 'equity' is the residual interest in the assets of the entity after deducting all its liabilities.. Therefore, we generally support the strict obligation approach as discussed in the DP. Nevertheless, we reemphasise the necessity to clarify the perspective of presenting financial statements and the definition of the reporting entity because it provides the conceptual meaning of equity in accordance with IFRSs.

We generally agree with the IASB's preliminary view that the depiction of the wealth transfers between existing shareholders and option holders presents useful information for users, i.e. the value movements within equity between primary and secondary equity claim holders. However, we think it would be necessary to emphasise that these movements do not reflect a comprehensive depiction of all wealth transfers between different classes of equity holders unless all classes of equity holders are directly measured at current value. We do not support the direct measure for all classes of equity. The IASB should clarify that only secondary equity claims as described in the DP should be eligible for a direct measure.

We also agree with the conclusion in the DP that the strict obligation approach would resolve existing inconsistencies between IFRS 2 and IAS 32 and result in less complexity in IAS 32 requirements. However, the consequential requirements to remeasure all share-based payments, including all non-cash settled employee stock options, at the end of each reporting period may result in more burden for some entities. In fact, pricing options for unlisted entities would require a direct measure of the value of the entity, i.e. entity valuation, at the end of each reporting period.

Furthermore, we are supportive of the preliminary view that if an entity has issued no equity instruments, it may be appropriate having an exception from the strict obligation approach with suitable disclosures. The DP states that the narrow equity approach may underlie some of such exceptions in IAS 32 that were introduced by the IASB in the past. Beside the fact that we do not agree with the narrow equity approach in general, we are also not supportive of a narrow equity approach as described in the DP as the conceptual basis for such exceptions.

Generally, we believe that a narrow equity approach based on the most residual class of financial instruments is not a practicable approach for reporting consolidated financial statements because we question the conceptual rationale of "most residual" class of financial instruments in context of a consolidated group of entities. However, limiting the most residual class to financial instruments issued by the parent as discussed in the DP raises another concern that non-controlling interests (NCI) do not qualify in any cases as equity claims in consolidated financial statements. We note footnote #44 of the DP and the indication that a variant of the narrow equity approach might classify NCI as equity. However, in our view this footnote is inconsistent with the general definition of the narrow equity approach as described in the DP that only equity instruments issued by the parent are eligible to qualify as most residual class. We strongly believe that the development of exceptions should not be limited to instruments issued by the parent but should also enclose NCI classified as equity in separate or individual financial statements.

IASB DP – Question 11: Section 6 Measurement

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35 of the DP. The IASB's preliminary views are that:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:
   (i) the resources of the entity, claims against the entity and changes in resources and claims; and
   (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;

(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
   (i) for a particular asset should depend on how that asset contributes to future cash flows; and
   (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and