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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	21. IFRS-FA / 04.11.2013 / 12:45 – 15:30 Uhr 05.11.2013 / 09:00 – 11:00 Uhr
TOP:	03 – IASB DP/2013/1 A Review of the Conceptual Framework for Financial Reporting
Thema:	IASB-Diskussionspapier / Erarbeitung DRSC-Stellungnahme
Papier:	21_03a_IFRS-FA_CF_Synopsis

Zweck dieser Sitzungsunterlage

- 1 Die nachfolgenden Ausführungen repräsentieren eine Zusammenfassung der bisher geführten Diskussion im IFRS-FA hinsichtlich des vom IASB im Diskussionspapier (DP) aufgestellten Fragenkatalogs. Die Sitzungsunterlage dient der Überprüfung, ob die Ausführungen adäquat die mehrheitliche Sichtweise des IFRS-FA widerspiegeln sowie der Identifizierung inhaltlich notwendiger Ergänzungen bzw. Änderungen für eine Stellungnahme des IFRS-FA zum Diskussionspapier an den IASB. Die Ausführungen stellen – gleichwohl in englischer Sprache abgefasst - noch keinen unmittelbaren Entwurf für eine Stellungnahme dar.
- 2 Neben den Ausführungen der vorläufigen Sichtweisen des IFRS-FA zu den einzelnen Fragen im DP sind zudem, unmittelbar nach den Fragen des IASB farblich abgesetzt, die korrespondierenden, vorläufigen Sichtweisen und Antworten von EFRAG im Draft Comment Letter aufgeführt. Diese synoptische Darstellung soll auch der Diskussion in der FA-Sitzung zur Vorbereitung einer Stellungnahme des IFRS-FA an EFRAG zum Draft Comment Letter dienen. Die nachfolgend dargestellten Sichtweisen des IFRS-FA beziehen sich auf die Fragen im DP, nicht aber auf die vorläufige Meinung von EFRAG.



- 3 Zudem sind zusätzliche Sichtweisen des DRSC-Projektverantwortlichen zu einzelnen Fragen aufgeführt und sollen dem IFRS-FA zur Diskussion gestellt werden. In der FA-Sitzung werden darüber hinaus die in der öffentlichen Diskussion am 25. Okt. 2013 vorgetragenen Sichtweisen der interessierten Öffentlichkeit durch den DRSC-Projektverantwortlichen erörtert und dem IFRS-FA zur Diskussion gestellt.

Grundsätzliche Anmerkungen des IFRS-FA zum IASB-Projekt

Scope of the project

- 4 The DP highlights that it is not the IASB's intention to have a fundamental rethinking of the Conceptual Framework. The outcome of the IASB's revision is considered in form of updates that reflect improvements of current guidance, filling existing gaps but also to address inconsistencies between IFRSs and between IFRSs and the existing Conceptual Framework.
- 5 In this context it is the ASCG's impression from the DP that not the Conceptual Framework drives the development of IFRSs – but more reversely – the development of individual standards is the driver for shaping the Conceptual Framework. We have concerns with this process and think that the justification of having a Conceptual Framework can only be based on the fact that Standards should be developed on the conceptual grounds of the Conceptual Framework, ie the Standards should follow the Framework and not the other way around. Thus, we question the usefulness and the role of the Conceptual Framework if fundamental rethinking of accounting concepts takes places on a standard level in first place, as in our view it was demonstrated with the right of use approach in the lease project.
- 6 Furthermore, we are not fully convinced that the scope of the current project reflects the expectation of those IFRS constituents that were in favour of a Conceptual Framework efforts in their feedback on the IASB's agenda consultation. In our view it should not be the intention of the project to align the Conceptual Framework with current standards for consistency purpose. We think in some areas, such as the debate of depicting an entity's performance, fundamental rethinking is necessary to address successfully the concerns with current IFRSs.



Timing of the project

- 7 More generally, we have some concerns with IASB's proposals relating to the progress and timing of the project. We understand the intention and benefits to address the revision of the Conceptual Framework in a single phase rather than spreading the discussion into separate phases. Nevertheless, we think there are some fundamental concepts that should be clarified before opening the discussion on other conceptual issues. For example with think conceptual clarification of the concept of the reporting entity and the perspective of presenting financial statements is necessary before debating issues such as the definition of assets and liabilities and equity.
- 8 In this respect we think the IASB should also reconsider the proposed timing of the project. We are concerned with the ambitious plan to finalise the revision by the end of 2015. In our view the revision of the Conceptual Framework is of great importance for the future development of IFRSs and there should be no rush for keeping artificial timelines. The discussion so far with German constituents indicates that this project covers a wide range of accounting issues with a need for reasonable time to discuss in a sufficient manner potential impacts and the identification of unintended consequences. In light of our concerns expressed above, that some conceptual issues need to be addressed in first place before moving to other remaining issues, we think there is no necessity to finalise all issues by the end of 2015.

Outcome of the project

- 9 We understand that the project will result in amendments to the current Conceptual Framework. A revised Conceptual Framework version will raise questions about the consequences for existing IFRSs. From the DP we have the impression that for some issues the IASB may consider starting immediately follow up projects to implement changes arising from the clarification and additions to the Conceptual Framework. In other parts of the document the DP repeatedly highlights that a revised Conceptual Framework will not necessarily lead to changes to existing IFRSs and that any proposal to change an existing Standard or Interpretation would need to go through the IASB's normal due process.
- 10 We generally agree with this view and we emphasise that immediate changes of existing IFRS are not desirable in light of potential instability instead of having a stable



platform for financial reporting. Thus, changing the Conceptual Framework should not automatically trigger changes to existing IFRS. Nevertheless, we think the IASB needs to develop a strategy for addressing the potential consequences and implications of changes in the Conceptual Framework to existing IFRSs. Ideally this kind of information should already be part of the Exposure Draft of a revised Conceptual Framework. Otherwise, there should be a timely evaluation process with a thorough assessment by the IASB whether and when some changes deriving from the revised Framework should be incorporated in existing IFRS requirements. Furthermore, the outcome of this evaluation process for each existing IFRS should be documented.

- 11 Additionally, as the revised Conceptual Framework will probably include a number of new, untested concepts, standards based on these new ideas need to be monitored closely. Ideally, the IASB should address issues arising from the newly introduced concepts and other deficiencies in the Conceptual Framework on a timely basis to reduce the risk of inconsistencies and exceptions.

Fragenkatalog des DP - Gegenüberstellung der Sichtweisen von EFRAG und DRSC

IASB DP - Question 1: Section 1 Introduction

Paragraphs 1.25–1.33 of the DP set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

- (a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and
- (b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

EFRAG generally agrees with the proposal on the purpose and status of the Conceptual Framework, but does not understand why parts of the Conceptual Framework should be



for the IASB's use only. EFRAG agrees with the proposal that the IASB could introduce requirements in Standards that could conflict with the Conceptual Framework, but EFRAG believes that future conflicts as well as existing conflicts should be identified and explained.

Vorläufige Sichtweise des IFRS-FA

- 12 Generally, the ASCG agrees with the proposals. We think the primary purpose of the Conceptual Framework is to assist the IASB when developing and revising IFRSs and to achieve the continuity of agreed concepts, assumptions, and objectives for financial reporting, despite changes in IASB members and staff. Furthermore, we believe the Conceptual Framework should retain its important role for constituents, especially for preparers as authoritative guidance in absence of specific guidance in IFRS as it is currently implemented through IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 13 Because of its role for other constituents, we think the IASB needs to address the implications of a revised Conceptual Framework. Especially we think the IASB needs to clarify the role of the revised Conceptual Framework for the work of the IFRS Interpretations Committee when developing interpretations of IFRSs that were developed based on a potentially different Conceptual Framework. We noticed that the IASB considers the proposed revision not as a fundamental rethink; however in our view some of the proposals reflect a material change from existing Conceptual Framework guidance. In this context we also refer to our general remarks about the project.
- 14 Furthermore, we have concerns relating to IASB's intention to limit some parts of the Conceptual Framework to the use by the IASB. We think there is no conceptual ground for such a proposal but it rather indicates weakness of particular concepts and definitions in the Conceptual Framework. We discourage the IASB to proceed with the idea that some parts of the Conceptual Framework should be considered as "IASB only" guidance.



IASB DP - Question 2: Elements of financial statements

The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16 of the DP. The IASB proposes the following definitions:

- (a) an asset is a present economic resource controlled by the entity as a result of past events.
- (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

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

EFRAG believes that the proposed definitions may be easier to understand than the current ones. EFRAG is currently split on whether the definition of an economic resource should be amended to specify that the right, or other source of value, should be capable of producing economic benefits to the entity.

Vorläufige Sichtweise des IFRS-FA

- 15 The ASCG is not fully convinced that the proposals for the new wording represent improvements compared to existing definitions. We think in context of the discussion about the definition of assets and liabilities it is fundamentally important to address the bases for identification, ie the unit of account issue. We notice from the DP that the IASB is proposing to deal with these questions on an individual standard level. We disagree with this view and would encourage the IASB to set more conceptual guidance on these issues in the Conceptual Framework. The discussion in context of IASB's lease proposals and conceptual questions relating to the right-of-use approach for assets underpin the need of having a better understanding and guidance in the Conceptual Framework. We reemphasise the so far conceptually unanswered questions raised in the lease project for carving out a particular right from the bundle that make up an asset and recognising it separately whilst not doing the same for other individual rights.
- 16 Furthermore, we think there is a fundamental need to clarify the perspective of presenting financial statements and the concept of the reporting entity. Depending on the per-



spective chosen, the conclusion what has to be considered as an economic benefit is likely to differ for some scenarios of transactions and events. In our view this conceptual question remains unanswered in the discussion paper, even though the IASB included previous discussions about the reporting entity in the appendix of the DP.

EFRAG's Question to constituents

EFRAG has discussed whether an economic resource should be defined as a right, or other source of value, that is capable of producing economic benefits *to the entity*. That is, whether 'to the entity' should be added to the proposed definition of an economic resource included in the DP. EFRAG has not reached a consensus on this issue. This draft comment letter therefore sets out two different views of the members of the EFRAG Technical Expert Group (EFRAG TEG members) and asks constituents for their comments.

View 1 – 'to the entity' should be added to the proposed definition of an economic resource

Some EFRAG TEG members believe that an economic resource is a right, or other source of value, that is capable of producing economic benefits *to the entity*. They note that shares in an entity are capable of producing economic benefits to others than the entity itself. Accordingly, if it is not specified that the economic benefits should flow to the entity, own shares would, in their view, meet the definition of an asset of the entity. They do not expect this is the intention of the IASB.

These EFRAG TEG members also note that assets managed by a third party, for example a discretionary trust, might be considered to be an asset of that third party if it were not specified that the economic benefits should flow to the entity. They do not think that it would result in useful information if the third party should recognise assets it is only managing on behalf of others.

View 2 – 'to the entity' should not be added to the proposed definition of an economic resource

Other EFRAG TEG members believe that it would be redundant to add 'to the entity' to the proposed definition of an economic resource. They note that the definition of control already includes the link to the entity.

The proposed definition of control states that an entity controls an economic resource if it has the present ability to direct the use of the economic resource so as to obtain the economic benefits that flow from it. Therefore, in the case of a discretionary trust, the third party does not control the assets as the trust only manages the assets without ob-



taining the economic benefits that flow from them. The economic resources provided by the investors should accordingly not be considered assets of the trust.

EFRAG TEG members in favour of View 2 also note that adding 'to the entity' to the proposed definition of an economic resource could have unintended consequences for when a liability would be identified. In addition, items benefiting society in general, rather than the entity, might not meet the definition of an economic resource if 'to the entity' would be added.

Question

Which, if any, of the views presented above do you support, and why? If you do not support any of the views, what is your view on the proposed definition of an economic resource included in the DP?

DRSC-Antwort an EFRAG

17 [Noch nicht erörtert]

IASB DP - Question 3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36 of the DP. The IASB's preliminary views are that:

- (a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.
- (b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.
- (c) the recognition criteria should not retain the existing reference to probability.

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

EFRAG thinks that the definitions of assets and liabilities should not include probability thresholds. (EFRAG's comments in relation to probability thresholds for recognition of assets and liabilities are provided below in relation to the questions on recognition).



Vorläufige Sichtweise des IFRS-FA

- 18 We tend to agree with these proposals. Nevertheless, the current Conceptual Framework contains a second recognition criterion that assets and liabilities must have a cost or value that can be measured with reliability. While we tend to agree to remove it as a general recognition criterion, we highlight the important role of reliability in context of measurement and refer to our response to Question 12.

IASB DP – Question 4

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52 of the DP.

Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

EFRAG supports that income and expenses are defined on the basis of changes in assets and liabilities. EFRAG believes it would be useful to define contributions to equity, distributions of equity and transfers between classes of equity. However, EFRAG does not see any particular benefits in defining cash receipts and cash payments. Instead the IASB should consider what the statement of cash flows should communicate.

Vorläufige Sichtweise des IFRS-FA

- 19 We do not think that a pure enumeration of elements is particularly helpful without adding information why the listing is conceptually important for developing future IFRSs. It would be useful to provide the definitions for these elements in the next due process publication. Similarly, if the IASB has the intention to add the list of primary financial statements in the Conceptual Framework, we encourage the IASB to not only list the individual primary financial statements but provide a clear and useful depiction what each statement should communicate to users, ie the purpose of each statement.

**IASB DP – Question 5: Section 3 Additional guidance to support the asset and liability definition**

Constructive obligations are discussed in paragraphs 3.39–3.62 of the DP. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations – and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50 of the DP.

Do you agree with this preliminary view? Why or why not?

EFRAG agrees with the DP that the IASB should retain the existing definition of a liability which encompasses both legal and constructive obligations. However, EFRAG thinks that constructive obligations should be defined broader than proposed in the DP.

Vorläufige Sichtweise des IFRS-FA

20 ASCG agrees with the preliminary view for the reasons given in the DP.

**IASB DP – Question 6**

The meaning of ‘present’ in the definition of a liability is discussed in paragraphs 3.63–3.97 of the DP. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity’s future actions. Three different views on which the IASB could develop guidance for the *Conceptual Framework* are put forward:

- (a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.
- (b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.
- (c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity’s future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

EFRAG thinks that a present obligation must have arisen from past events and be practically unconditional. However, the term ‘past events’ should be described differently than suggested in the DP in cases where the entity does not receive direct benefits from incurring an obligation.

Vorläufige Sichtweise des IFRS-FA

- 21 The ASCG agrees with the IASB proposals that View 1 should not be a viable option. The ASCG tends to agree with View 2. However, the distinction between View 2 and View 3 is not entirely clear. We think that more information/guidance is needed in this context, especially the term “practically unconditional” remains vague and additional information is necessary to evaluate the proposal. Otherwise, we think View 2 and View 3 could result in the same outcome. Therefore, we think it will be useful to highlight



those scenarios and conceptual argumentations where View 2 and View 3 would always results in different timing of recognition.

- 22 Furthermore, we question why the issue of the timing for recognition is not discussed similarly for the asset side. We think the IASB should address the question whether a form of mirroring should be considered when approaching the recognition issues.

IASB DP – Question 7

Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?

EFRAG supports the additional guidance. However, it notes that the definition of control may be different from how some currently interpret the term. In addition EFRAG considers that the Conceptual Framework should provide additional guidance on when economic compulsion should be considered when distinguishing between equity and liability.

Vorläufige Sichtweise des IFRS-FA

- 23 [Noch nicht erörtert]

IASB DP – Question 8: Section 4 Recognition and Derecognition

Paragraphs 4.1–4.27 of the DP discuss recognition criteria. In the IASB’s preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because:

- (a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost;
or
- (b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

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



EFRAG agrees with the DP that relevance and faithful representation should be considered when deciding on recognition of assets and liabilities. EFRAG has not reached a consensus on whether the Conceptual Framework should include probability thresholds in relation to recognition.

Vorläufige Sichtweise des IFRS-FA

24 The ASCG supports the proposals for the reasons given by the IASB in the DP.

IASB DP – Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51 of the DP, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

- (a) enhanced disclosure;
- (b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or
- (c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

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

EFRAG supports that proposals included in the DP, but thinks guidance should be provided on the difference between a modification of an asset or liability and derecognition of an asset or liability and recognition of another.

Vorläufige Sichtweise des IFRS-FA

25 The ASCG supports the proposals for the reasons given by the IASB in the DP.

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 eq-



uity, 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?

EFRAG supports retaining a split between equity and liability claims and equity being the residual claim on the entity that is not directly remeasured.

Before deciding on specific requirements for identifying equity, EFRAG believes it is important to decide if this is being done from an entity or proprietary perspective to financial reporting.



EFRAG believes that primary and secondary equity claims are fundamentally different, and that the Conceptual Framework should reflect this. In particular, it would be inappropriate for holders of secondary equity claims to be described as the owners of an entity.

EFRAG does not support the notion of 'wealth transfer' to describe changes in secondary equity claims.

EFRAG has an alternative proposal that ensure an entity's trading, borrowing and investing activities are presented within comprehensive income. This alternative proposal also provides a conceptual basis to addressing what some see as the counter-intuitive accounting in comprehensive income for puttable instruments, including NCI puts.

EFRAG generally supports the proposal that obligations that arise only on liquidation of the reporting entity not be classified as liabilities, given that financial statements are prepared on a going concern basis.

EFRAG appreciates the difficulties presented by situations where an entity has issued no instruments that are purely equity, but is not convinced that the approach proposed is the best one.

EFRAG believes that the current financial reporting requirements, derived from paragraph 24 of IAS 32, do not always result in useful information. This is particularly the case with respect to instruments that oblige the entity to distribute a portion of net income each year. EFRAG believes that it would be more appropriate for any liability in these instruments to be recognised at the same time as the revenue or net income they require distribution of as this would result in a more relevant economic depiction of the entity. EFRAG also notes that this is linked to Chapter 5 of the DP, and an approach of recognising a liability concurrent with the revenue or net income would be consistent with Approach 2 described there.

EFRAG appreciates the difficulties presented by situations where an entity has issued no instruments that are purely equity, but is not convinced that the approach proposed is the best one.



- 26 Reflecting the decision that no fundamental changes should be introduced at this stage to the Conceptual Framework, the ASCG agrees with the implications of a strict obligation approach. In this context the ASCG supports the proposals to update the measure of each class of equity claim and the ASCG agrees with the view expressed in the DP that information of wealth transfer between equity holders is useful. Nevertheless, we think the IASB needs to highlight the fact that there is no full depiction of all wealth transfers between holders of equity, for example changes in the spread between ordinary shares and preferred shares would also represent a wealth transfer.
- 27 The ASCG is supportive of the proposals that if an entity has issued no equity instruments, it may be appropriate to have an exception from the strict obligation approach with suitable disclosure. However, the ASCG would not agree that the narrow equity approach as described in the DP should be the basis for such an exception. Particularly, the ASCG is not supportive of a narrow equity approach because of the fact that instruments classified as equity instruments in the separate or individual financial statements that are non-controlling interests (NCI) have to be classified as liabilities in the consolidated financial statements of the group. We noticed footnote #44 of the DP and the indication that a variant of the narrow equity approach might classify NCI as equity. We tend to support such a variant. However, this footnote is confusing and conflicts with the general definition of the narrow equity approach in the DP that only equity instrument issued by the parent would qualify as equity.

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 necessary measurement changes should be explained; and
- (f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

EFRAG broadly agrees with IASB's preliminary views expressed under Question 11. EFRAG however believes that the business model should also play an important role in selecting the appropriate measurement basis, and therefore help implementing the proposed principles in a reliable manner. EFRAG also believes that limiting the number of measurement bases *ex ante* could conflict with the objectives of financial reporting.

Vorläufige Sichtweise des IFRS-FA

- 28 The ASCG agrees with these preliminary views in the DP. In our view the discussion and the proposals in the DP represent noticeable improvements compared to the measurement section in the current Conceptual Framework.

IASB DP – Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73 – 6.96 of the DP. The



IASB's preliminary views are that:

- (a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.
- (b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.
- (c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.
- (d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

EFRAG broadly agrees with IASB's preliminary views expressed under Question 12.

Vorläufige Sichtweise des IFRS-FA

- 29 We generally agree with these preliminary views in the DP. We think they mostly reflect the current approach in many IFRSs. Nevertheless, we think it is necessary to emphasise the importance of reliability in the context of (subsequent) measurement. For example we think that in many cases finished goods as part of an entity's inventories - contributing directly to future cash flows by being sold - cannot be measured at a current exit price on a reliable basis.
- 30 Because the DP proposes to remove the current recognition criterion that an item has a cost or value that can be measured with reliability, we think the importance of reliability should be highlighted in the Conceptual Framework for the determination of the measurement attribute for transactions and events.

IASB DP – Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109 of the DP. The IASB's preliminary



views are that:

- (a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
- (b) a cost-based measurement will normally provide the most relevant information about:
 - (i) liabilities that will be settled according to their terms; and
 - (ii) contractual obligations for services (performance obligations).
- (c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

EFrag broadly agrees with IASB's preliminary views expressed under Question 13.

Vorläufige Sichtweise des IFRS-FA

- 31 The ASCG supports the proposals for the reasons given by the IASB in the DP.

IASB DP – Question 14

Paragraph 6.19 of the DP states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

- (a) if the ultimate cash flows are not closely linked to the original cost;
- (b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or
- (c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).



Do you agree with this preliminary view? Why or why not?

EFRAG agrees with IASB's preliminary view expressed under Question 14.

Vorläufige Sichtweise des IFRS-FA

32 The ASCG supports the proposals for the reasons given by the IASB in the DP.

IASB DP – Question 15

Do you have any further comments on the discussion of measurement in this section?

EFRAG does not have any further comments regarding measurement.

Vorläufige Sichtweise des IFRS-FA

33 [In den letzten FA-Sitzungen wurden keine entsprechenden Punkte adressiert]

IASB DP – Question 16: Section 7 Presentation and disclosure

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:

- (a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and
- (b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8 of the DP), including:
 - (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;
 - (ii) amendments to IAS 1; and
 - (iii) additional guidance or education material on materiality.

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:

- (a) presentation in the primary financial statements, including:
 - (i) what the primary financial statements are;
 - (ii) the objective of primary financial statements;
 - (iii) classification and aggregation;



- (iv) offsetting; and
 - (v) the relationship between primary financial statements.
- (b) disclosure in the notes to the financial statements, including:
- (i) the objective of the notes to the financial statements; and
 - (ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.

EFRAG agrees with the proposals, but thinks that more guidance is needed for some areas.

Vorläufige Sichtweise des IFRS-FA

- 34 Generally, the ASCG agrees with the preliminary views expressed in the DP. We think the guidance in the Conceptual Framework would be even more useful if it contained a more comprehensive discussion about the boundaries of financial reporting. It still remains unclear whether and how the IASB draws the borderline between information presented in the financial statements and other financial information, considered to be part of management commentary and other parts of financial reporting.

IASB DP – Question 17

Paragraph 7.45 of the DP describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

EFRAG thinks that more general guidance on materiality could be included in the Conceptual Framework.



Vorläufige Sichtweise des IFRS-FA

- 35 The ASCG believes that the concept of materiality is clearly and consistently understood as an entity-specific aspect of relevance. We acknowledge that the concept of materiality is based on quantitative as well as qualitative judgement in regard to the size and nature of the item, omission or misstatement. Also, specific facts and circumstances have to be taken into consideration for this judgement. Therefore, the concept of materiality will, by definition, result in some divergence in practice without negatively impacting the relevance of the information provided.
- 36 Because the primary purpose of the revised Conceptual Framework is to assist the IASB in identifying concepts that it will use consistently when developing and revising IFRSs, we think additional application guidance about materiality for IFRS constituents would be more helpful in IFRSs. However, we support any efforts by the IASB in the Conceptual Framework that would result in a more understandable and consistent way of using terms such as “significant”, “key”, “critical”, “important”, “as a minimum” in future IFRSs.

IASB DP – Question 18

The form of disclosure requirements, including the IASB’s preliminary view that it should consider the communication principles in paragraph 7.50 of the DP when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52 of the DP.

Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

EFRAG agrees that communication principles should be part of the Conceptual Framework and generally agrees with the principles suggested.

Vorläufige Sichtweise des IFRS-FA

- 37 The ASCG agrees that communication principles should be part of the Conceptual Framework.



Zusätzliche Sichtweise des DRSC-Projektverantwortlichen

- 38 Communication principles should not be part of the Conceptual Framework, those principles should be part of a particular Standard. The Conceptual Framework should be the basis for the IASB to develop standards and there should be no overload of guidance that is better addressed in a single IFRS. Additionally, these communication principles are similar to the (enhanced) qualitative characteristics in section 3 of the current Conceptual Framework. Most of these principles are already required in IAS 1 (but with less description of the principle itself).
- 39 IAS 1.17 “A fair presentation also requires an entity: [...] to present information in a manner that provides relevant, reliable, comparable and understandable information”. Hence, communication principles are already part of IFRSs but there is a need to enhance these principles with more prominence in IFRSs (not in the Conceptual Framework). Furthermore, the terminology between the suggested communication principles and qualitative characteristic in the Conceptual Framework should be aligned, otherwise it would be another source of terminology confusion caused by different wording, for example:
- Balanced vs. neutral
 - Important vs. relevant
 - Clear vs. faithful
- 40 Additionally, those communication principles were developed by EFRAG, ANC and FRC in the discussion paper “Towards a Disclosure Framework for the Notes” for preparer but not for the standard setter. Hence, this would better fit as guidance in IFRSs for preparers rather the Conceptual Framework.

IASB DP – Question 19: Section 8 Presentation in the statement of comprehensive income – profit or loss and other comprehensive income (OCI)

The IASB’s preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22 of the DP.

Do you agree with this preliminary view? Why or why not? If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?



EFRAG agrees that the Conceptual Framework should require profit or loss to be presented.

Vorläufige Sichtweise des IFRS-FA

- 41 The ASCG agrees with the preliminary view in the DP. We refer to IASB's previous due process efforts, discussion, and feedback received on similar questions in other more recent IFRS projects where the majority of constituents responded in favor of retaining a total or subtotal for profit or loss. Without considering a fundamental rethinking on performance we see at this stage no justification to get to a different conclusion compared to the conclusion in previous projects.
- 42 Overall, we think the question whether to require a total or subtotal for profit or loss can not be answered without having a clear understanding of the meaning of profit or loss and performance of the entity. We acknowledge the efforts in the DP to provide a more conclusive depiction of what is considered to be the meaning of profit or loss and what components belong to OCI. Nevertheless, we have the impression that the DP represents an effort to justify existing accounting guidance in current IFRSs in context of OCI and recycling. We are not convinced that this is a suitable approach to address the issue about the distinction between profit or loss and OCI and we question the conceptual robustness of both discussed approaches in the DP. We believe the demand from constituents to clarify the meaning of OCI reflects the perceived inconsistency of use of OCI in current IFRSs.
- 43 We think a more promising approach to address the issue about the distinction between profit or loss and OCI would be the development of distinction criteria based on a combination of attributes that are discussed in paragraph 8.37 in the DP, for example the combination of long-term and unrealized gains or losses. Based on such a combination the IASB should illustrate the implications on current IFRSs, and highlight in the Exposure Draft the potential changes.

IASB DP – Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recog-



nised subsequently in profit or loss; i.e. recycled, is discussed in paragraphs 8.23–8.26 of the DP.

Do you agree with this preliminary view? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?

EFRAG thinks that all items presented in OCI should qualify for recycling to profit or loss unless recycling would not provide relevant information in profit or loss.

Vorläufige Sichtweise des IFRS-FA

44 The ASCG refers to the response to Question 19.

IASB DP – Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in the OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78 of the DP) and a broad approach (Approach 2B described in paragraphs 8.79–8.94 of the DP).

Which of these approaches do you support, and why?

If you support a different approach, please describe that approach why do you believe it is preferable to the approaches described in this Discussion Paper.

EFRAG supports Approach 2B and believes an entity's business model should play a role in defining primary performance and thus which items of income and expense should go to profit or loss and which into OCI. Therefore, the Conceptual Framework should not artificially limit the IASB's possibilities for defining the primary performance, reflected in profit or loss.

Vorläufige Sichtweise des IFRS-FA

45 The ASCG refers to the response for Question 19.

IASB DP – Question 22: Section 9 Other issues

Paragraphs 9.2–9.22 of the DP address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of



stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

EFRAG thinks that the first chapters of the Conceptual Framework should be revised. EFRAG believes that it should appear from the first chapters that the objective of assessing stewardship is as important as assessing the prospects for future cash flows. Reliability should be reintroduced as a concept and prudence should be built into IFRS.

Vorläufige Sichtweise des IFRS-FA

46 [Frage noch nicht im Detail erörtert]

IASB DP – Question 23: Business Model

The business model concept is discussed in paragraphs 9.23–9.34. This DP does not define the business model concept. However, the IASB’s preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define ‘business model’? Why or why not? If you think that ‘business model’ should be defined, how would you define it?

EFRAG believes that the business model notion should be referred to in IASB’s financial reporting requirements on a systematic basis and thus be part of the IASB’s Conceptual Framework.



Vorläufige Sichtweise des IFRS-FA

47 [Frage noch nicht im Detail erörtert]

EFRAG's Question to constituents

Do you support EFRAG's tentative position on the implications of the business model for Conceptual Framework, expressed in paragraphs 412 – 423 (EFRAG DCL)? If not, please explain your reasoning.

The questions below reproduce the questions from the Bulletin *The Role of the Business Model in Financial Reporting*, issued in July 2013 by EFRAG and the standard-setters from France, Germany, Italy and the United Kingdom. Constituents should provide their input either as a response to the Bulletin or as a response to this DCL.

- (a) Do you think the assumed meaning as used in the Bulletin makes sense from a financial reporting perspective?
- (b) Do you support the tentative view that management intent and business model are distinct?
- (c) Do you support the tentative view that the business model should play a role in financial reporting?
- (d) Do you support the in the Bulletin proposed implications for the IFRS literature?

Do you have any other comments?

DRSC-Antwort an EFRAG

48 [Noch nicht erörtert]

IASB DP – Question 24: Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

EFRAG generally agrees with the proposal but thinks that the IASB should commit itself more explicitly to consider the unit of account in relation to each Standard.



Vorläufige Sichtweise des IFRS-FA

49 [Frage noch nicht im Detail erörtert]

IASB DP – Question 25: Going concern

Going concern is discussed in paragraphs 9.42–9.44 of the DP. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?

EFRAG agrees with the situations identified. However, we think that the link between the going concern assumption and concepts such as ‘practically unconditional’ and ‘no realistic alternative’ should be explained.

Vorläufige Sichtweise des IFRS-FA

50 [Frage noch nicht im Detail erörtert]

IASB DP – Question 26: Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54 of the DP. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

EFRAG agrees that the IASB should defer its work on capital maintenance until it considers how to account for inflation.

Vorläufige Sichtweise des IFRS-FA

51 [Frage noch nicht im Detail erörtert]

Zusätzliche Sichtweise des DRSC-Projektverantwortlichen

52 Capital maintenance is a fundamentally important concept in context of the depiction of entity’s performance and entity’s financial position. The Conceptual Framework should be the basis for developing IFRSs. EFRAG’s response and IASB’s view reflects a re-



verse mechanism to develop the fundamental concepts for individual IFRS first with updates to the Conceptual Framework afterwards.

EFRAG's additional issues

Reporting entity

The IASB has decided not to discuss the reporting entity issue in relation to this DP. Instead the IASB will consider the comments received in response to its 2010 exposure draft on the reporting entity when preparing an exposure draft on the review of the Conceptual Framework for financial reporting. EFRAG considers this unfortunate. EFRAG thinks that several issues could have benefitted from additional discussion before moving to the next phase of the review of the Conceptual Framework. In particular EFRAG believes that the perspective from which financial statements are presented is critical and should be discussed in the Conceptual Framework. EFRAG notes that this issue was not included in the 2010 exposure draft on the reporting entity. However, clarifying the perspective is important in assessing how to resolve accounting policy issues and is central to considering how to satisfy the objective of financial reporting. EFRAG therefore thinks that it is necessary to carry out an in-depth analysis of the implications of adopting either perspective and to ensure they are properly debated. It would have been beneficial to initiate this work when developing the DP.

In addition, EFRAG thinks that the IASB should examine more comprehensively whether the application of a joint control approach for determining the boundaries of the group reporting entity provides decision-useful information.

Reporting period

EFRAG considers that some guidance on what the reporting period represents should be provided. EFRAG, for example, questions the logic of current requirements where:

- (i) Impairment of goodwill recognised in one interim period cannot be reversed although it would not have been recognised if only an annual report had been prepared.
- (ii) A levy relating to an entire year that only meets the criteria for recognition in the last quarter of a financial year would only be reflected in the result of this last quarter. Accordingly, some could argue that the quarterly reports of the first periods of the financial year have provided a too optimistic reflection of the entity's



performance.

EFRAG acknowledges that these issues may primarily relate to interim reporting, and could thus be considered in relation to this specific Standard. However, EFRAG wants to raise the issue in case the IASB considers it more appropriate to deal with the issue in relation to the Conceptual Framework.