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Dear Hans,

IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Discussion Paper DP/2013/1 (herein referred to as the 'DP'). We appreciate the opportunity to comment on the DP and provide our answers to the specific question in the DP in the Appendix enclosed to this letter.

Besides expressing our views relating to the detailed questions and based on the fact that the DP is effectively the first due process publication of this project, we would like to bring our general remarks and comments about the Conceptual Framework project objective and efforts to your attention as outlined below.

Scope and outcome of the project

We mainly support the scope of the review efforts and IASB's decision to build on the existing Conceptual Framework - updating, improving and filling in gaps rather than fundamentally reconsidering all aspects of the Conceptual Framework. We understand that the project will result in amendments to the current Conceptual Framework and the IASB will start using the revised Conceptual Framework immediately once it is finalised.

We believe some of the proposals and ideas would result in significant shifts in accounting if consistently applied across all IFRSs. Hence, a revised Conceptual Framework version will raise questions about 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. In addition, some IFRSs – e.g. IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* - require the application of the Conceptual Framework. Therefore, it can be argued that once the review of the Conceptual Framework is finalised, it may have an immediate impact for preparers, i.e. modified definition and recognition of assets, liabilities, income and expenses (IAS 1.15).

Nevertheless, we agree with the IASB's view that immediate changes to existing IFRSs are not desirable in light of the potential instability instead of having a stable platform for financial reporting. Thus, changing the Conceptual Framework should not automatically trigger immediate changes to existing IFRSs. However, we strongly believe that the objective and project efforts to revise the Conceptual Framework should ultimately result in consistency of requirements across all IFRSs. We think consistency across IFRSs is of fundamental importance and should be considered as a key driver for the project efforts to improve financial reporting. Therefore, we think the IASB needs to develop a strategy and impact assessment 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 Conceptual Framework should be incorporated in existing IFRS requirements. Furthermore, the outcome of this evaluation process for each existing IFRS and the IASB's strategy to achieve consistency across IFRS's should be documented.

Overall, as a revision of the 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 (re-)introducing inconsistencies and exceptions. The IASB should also clarify the impact of the Conceptual Framework review for IFRS requirements that include references to the Conceptual Framework, especially IAS 1.15 and IAS 8.11-12.

Timing of the project efforts

We have some concerns with the 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 overarching concepts that should be clarified in the first place before continuing the discussion on other derived conceptual issues. For example we think the conceptual clarification of the concept of the reporting entity and more important the perspective of presenting financial statements is of absolute necessity before debating depending issues such as the definition of assets and liabilities and equity.

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 consistent IFRSs and there should be no rush for keeping artificial timelines. We perceive that the IASB had postponed some more in-depth discussions already in the preparation of the DP. Furthermore, 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.

If you would like to discuss our general remarks and our detailed comments enclosed in the Appendix further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

Appendix – Answers to the questions of the discussion paper

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?

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 the IASB's members and its staff. The Conceptual Framework should be considered as the common starting point for IASB when developing or revising IFRSs and it should be used to clearly mark any exceptions used in IFRSs, including the justification for those exceptions.

Furthermore, we believe the Conceptual Framework should retain its important role for constituents, especially for preparers as an authoritative guidance in absence of specific guidance in IFRSs as it is currently implemented through IAS 8.

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.

Furthermore, we have concerns relating to the 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?

We are not fully convinced that the proposals for the new wording represent improvements compared to existing definitions. Furthermore, we think there are additional aspects with subject to clarification but not addressed in the DP.

For example reflecting on the proposed wording, we are not overall convinced with the conclusion in the DP that treasury shares are in all cases not capable of producing economic benefits. To be able to get to such a conclusion we think additional clarification is necessary reflecting the underlying assumption of the reporting entity and the perspective of presenting financial statements, i.e. discussion around proprietary vs. entity perspective. We had hoped and expected clarification in the DP on this issue because of its fundamental implications for the definition of each element of financial statements and the fundamental accounting equations. We think some requirements in current IFRSs reflect the application of different perspectives of presenting financial statements.

In addition we point to the fact that the IASB states in the DP that it should consider how the entity conducts its business activities to make IFRSs more relevant. From this economic substance perspective it can be argued that some treasury stock activity provides clear evidence for asset treatment, i.e. there is clear evidence of reissuance of those stocks and no reduction of an entity's capitalisation is considered by the entity after a share reacquisition. For such cases we think it is difficult to argue that these kinds of shares, convertible to cash at any time by the management, are no economic resources, i.e. not capable of producing economic benefits.

In our view the proposed clarifications will significantly shift the meaning and interpretation of assets compared to the current definition in the Conceptual Framework. The IASB's proposal that "an asset is a present right or other present source of value (i.e. knowledge) that is capable of producing economic benefits and controlled by the entity as a result of past events" would in essence result to the fact that all assets are of intangible nature. Not the physical object but any rights linked with the physical object would be subject of accounting. In this context we had hoped that the DP would also clarify and provide more guidance how the IASB will consider the identification of all these different rights in the future when developing or revising IFRSs. We think the new proposals will result in new questions with more need for conceptual clarification how the different rights should be identified. For example should there be separate accounting for different rights of a single equity instruments (share) – e.g. voting rights, right to receive dividends? In this context we also refer to our answer to Question 24 relating to the unit of account issue.

Furthermore, we think the control aspects and the notion of past events need further clarification and should not be part of the assets definition but part of the recognition criteria in the Conceptual Framework. We think this would be conceptual more sound having a definition that describes more broadly the meaning of assets and (de)recognition criteria that would exclude some assets from recognition. In this context we also refer to our answer to Question 7 relating to the control concept and to our answer to Question 6 relating to clarification needs for the notion of past events.

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?

Relating to the replacement of the term "expected" with the notion of "capable", it is not clear to us, whether this notion should still imply the existence of potential restrictions. We think capable is equal to the meaning of everything is this context. Hence we think the proposed definition would be equal to the definition: An economic resource is a right, or other source of value, that may produce future economic benefits.

We agree with the proposals in Question 3b and 3c. 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 removing it as a general recognition criterion, we highlight the important role of reliability in the context of selecting the measurement method and refer to our response to Question 12. We reemphasise our view that the control concept and the notion of past events should be a recognition criteria in the revised Conceptual Framework.

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?

We do not think that a pure enumeration of elements is particularly helpful without adding information why the listing is conceptually important for assisting the IASB when developing or revising IFRSs. It would be useful to provide the definitions for these elements (as listed in Question 4) in the next due process publication. Relating to the distinction between profit or loss and other comprehensive income (OCI), we think the IASB should discuss whether reclassification adjustments, i.e. income recycling, are considered as separate elements.

Beside Question 4 we would like to note that if the IASB has the intention to add the list of primary financial statements in the revised Conceptual Framework, we encourage the IASB to not only list the individual primary financial statements but to provide a clear and useful depiction what each statement should communicate to users, i.e. the purpose of each statement. In addition the IASB should clarify the perspective of presenting primary financial statements.

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?

The 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.

The ASCG acknowledges the discussion and description of issues that the IASB faced in the past relating to View 1. We think View 2 or View 3 may overcome some of these particular issues in some cases. However, we have concerns that the consistent application of View 2 or View 3 across all liabilities may cause even greater issues compared to those addressed for View 1. We think that the strength of View 1 is based on the fact that it is not difficult to operationalise in comparison to View 2 or View 3. Especially for View 3 we have concern whether such an approach could be operationalised without significant undesirable application diversity in practice. Overall, we think before forming our view to this question, the IASB needs to provide more clarification.

In our view the Discussion Paper did not explore sufficiently the consequences and potential difficulties of View 2 and View 3 and we encourage the IASB to do so. As mentioned above we think the efforts to revise the Conceptual Framework should result in a consistent set of Standards, implying consistent requirements across all Standards. In our view, applying View 2 or View 3 to the scope of IAS 37 would significantly increase the variety of liabilities that an entity must consider for recognition. Thus, View 2 or View 3 would be a fundamental shift for IFRSs, if consistently applied across all liabilities.

Furthermore, the IASB should provide more information relating to the understanding of the “past event”. Reflecting the discussion in the DP, we think the notion remains very vague and open to different interpretations, especially for contingent considerations. Because everything can be traced back to a past event, there should be more clarification in the revised Conceptual Framework.

Additionally, we think that the IASB should provide more information and guidance about the conceptual basis for View 2 and View 3. We perceive the distinction between View 2 and View 3 is not very clear in the DP. Without further interpretation of the new and vague term “practically unconditional”, we think View 2 and View 3 are very similar and may result in the same outcome. There is also a need to clarify the relation between the going concern assumption and its implication for View 2 and View 3. Furthermore, we think View 2 and View 3 carrying the idea of a matching concept without clearly stating this fact in the DP. If this is the case, the IASB should also provide more information, especially which income, i.e. revenues, should be considered to be matched.

From a general and holistic perspective, we also question why the issue of the timing for recognition is addressed only for liabilities but not discussed similarly for the assets in the DP. In the same way the IASB should clarify if those views are applicable for the question relating the recognition of secondary equity claims in the context of the strict obligation approach, i.e. recognition of obligations to issue shares.

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?

We think the IASB needs to provide more clarification relating to the control notion in IFRSs. We noticed that the DP reflects on two different control approaches. The DP points to IASB's *Exposure Draft Revenue from Contracts with Customers* where control is defined as "[…] the ability to direct the use of and obtain substantially all of the remaining benefits from the asset." As a second approach the DP points to IFRS 10 *Consolidated Financial Statements* where the concept of control determining when one entity should consolidate another entity is defined as follows: "An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."

It is not clear to us why the IASB did not reflect in the DP the definition of control in existing, effective IFRSs. For example according to IAS 38 *Intangible assets* "an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits". We think there is a need for clarification whether the IASB considers this definition equivalent to the control definition in the *Exposure Draft Revenue from Contracts with Customers.* We are concerned that the control concept/approach becomes blurry across different IFRSs and a variety of control approaches is not helpful and undesirable.

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?

The ASCG supports the proposals for the reasons given by the IASB in the DP, except to the fact that the concept of control and the notion of past events should be addressed as part of recognition in the revised Conceptual Framework and not within the definition of assets and liabilities – see also our answer to Question 1.

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?

The ASCG supports the proposals for the reasons given by the IASB in the DP. As we mentioned above – and worded in Question 9 – we think the control concept should be considered as a recognition criterion, i.e. not be part of the definition. Furthermore, we perceive a kind of disharmony between the proposed asset definition used in section 2 and 3 in the DP and the asset and liability terms used in section 4 relating to the explanation about derecognition, particular the discussion about full or partial derecognition. Section 4 refers to "components" of asset or liability and Section 4 also refers to multiple rights and obligations contained in an asset (or a liability). Thus, the IASB should clarify whether an economic resource is a single right or whether the economic resource is a set of rights and the economic resource can have different components.

Furthermore, we noticed that Question 9 only refers to the control approach. In our view derecognition of assets and liabilities would need to reflect additional, higher recognition thresholds developed for those assets and liabilities in particular Standards too.

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?

The ASCG supports the IASB's preliminary view not changing 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. Nevertheless, because the split between equity and liabilities in line with the descriptions of a strict obligation approach depends on the definition of assets and liabilities, we refer to the issues raised in our answer to Question 2. We reemphasise the necessity to clarify the perspective of presenting financial statements and the definition of the reporting entity because it would provide the conceptual meaning of equity in accordance with IFRSs.

We generally agree with the IASB's 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 transfer between different classes of equity holders unless all classes of equity holders are directly measured at current value. We would not support the direct measure for all classes of equity. Thus, 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 burdens 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, the ASCG is supportive of the proposals 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. The ASCG is not supportive of a narrow equity approach as the conceptual basis for such exceptions because of the fact that instruments classified as equity instruments in separate or individual financial statements that are non-controlling interests (NCI) have to be classified in all cases as liabilities in the consolidated financial statements of the group. We oppose to such a limitation – similar to current guidance in IAS 32.AG29A – that only instruments issued by the parent would be eligible for exceptions.

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 of the narrow equity approach if there is the necessity for exceptions. However, in our view this footnote is inconsistent with the general definition of the narrow equity approach in the DP that only equity instruments issued by the parent would qualify as equity. We strongly think 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 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?

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.

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 the (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 – are less likely to be measured at a current exit price on a reliable basis.

Because the DP proposes removing 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.

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.

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?

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?

We do not have any further comments relating to the discussion of measurement in the DP.

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.

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 to us whether and how the IASB draws the line between information presented in the financial statements and disclosure of other financial information that is considered to be part of management commentary and other parts of financial reporting. Thus, we encourage the IASB to clarify these boundaries in the revised Conceptual Framework.

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?

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.

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 agree with the view that - if considered to be useful - additional application guidance about materiality could be developed but should not be added to the Conceptual Framework. However, we encourage and 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. The variety and different use of these different terms across IFRSs is not beneficial and provide room for different interpretations.

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?

Overall, we agree with the IASB's intention to include general presentation and disclosure principles in the revised Conceptual. Relating to the listed communication principles, we do not fully understand from the DP how the IASB will operationalise these communication principles when it develops or amends disclosure guidance in IFRSs. Beside the fact that we think "communication principles" is not the appropriate term for such presentation and disclosure principles, we think the IASB needs to clarify the relation between those communication principles and qualitative characteristics of useful financial information as listed in Chapter 3 of the Conceptual Framework. Many of the communication principles appear to be very similar with the requirements listed in Chapter 3. Hence, we think the IASB should better demonstrate how it considers using these principles, i.e. how these principles will provide additional assistance to the standard-setting process. Furthermore, we think the IASB needs to review carefully the wording and terms used within these principles. We may foresee questions arising from using similar but different terms for the communication principles compared to the qualitative characteristics of financial information in Chapter 3 of the Conceptual Framework, e.g. balanced vs. neutral, important vs. relevant, and clear vs. faithful.

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?

We believe that the financial performance of the entity cannot be reflected in a single net measure of income and expense. To understand the financial performance of entity's business activities, users need to evaluate a variety of facts and circumstances. In this context grouping certain items of income and expense is in our view beneficial and helps users to better understand the different aspects and facets of the financial performance of the entity's business activities. However, a required grouping and the derived presentation of totals and subtotals must follow an unambiguous meaning to be useful.

We acknowledge the efforts in the DP to provide a more conclusive depiction of what is considered to be performance through 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 the 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 the IASB's decision in the past for the use of OCI in IFRSs. We consider that a more fundamental rethink is necessary.

In reflection of the two approaches discussed in the DP, we think a more promising approach to address the distinction between profit or loss and OCI would be the development of a distinction criteria based on a combination of attributes that are discussed in paragraph 8.37 in the DP. Tentatively, we think that only <u>unrealised</u> gains or losses arising from <u>longer-term</u> contracts with a reasonable chance to reverse over the remaining time of the contract should be eligible for recognition in OCI. For some business activities the IASB could develop additional criteria that would require or allow the recognition of those gains or losses directly in profit or loss.

In our view recycling of OCI should be required in all cases. Exceptions from the recycling requirement and any simplifications relating to the presentation of income recycling should be based only on cost/benefits considerations. Because recycling as reclassification adjustments do not meet the definition of income and expense, the IASB should consider this fact in the context of describing the elements of financial statements.

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 in OCI to be recognised 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?

We refer to our 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.

We refer to our response to 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.

Generally we agree with the proposed approach. We think that changes to these revised chapters need to be based on evidence of unintended consequences or should reflect new issues that the IASB did not discuss before.

Relating to the discussion about stewardship, we believe that the IASB adequately addressed the importance and the role of accountability/stewardship in its 2010 Conceptual Framework. Furthermore, we acknowledge the frequent references to stewardship in the DP. We are concerned that new amendments to the objective of financial reporting will bring more questions and reopens the issues that the IASB was trying to address with the changes in 2010. We do not think that the IASB neglected the importance of stewardship aspects since 2010 when developing or revising IFRSs. Furthermore, we think the standard-setting process on the bases of competing primary objectives would become an ambiguous effort.

Similarly to the stewardship issue, we question the resurrection of prudence and reliability without having clear evidence that the changes introduced in 2010 to the Conceptual Framework resulted in new or revised IFRSs causing imprudent and/or unreliable financial information. In our view the IASB should undertake educational efforts to illustrate the potential risk of reintroducing these concepts and reemphasize the arguments for the decisions made in 2010. Furthermore, in our view the IASB could clarify two issues:

- When developing or revising IFRSs, how would the IASB address the neutrality requirement relating to accounting estimates to rein any propensity for optimism by management?
- Whether existing IFRS requirements, such as recognition of impairments and accounting for onerous contracts were developed on the bases of prudence in the past. Many believe these accounting requirements are outcome of the concept of prudence and reflect disparity treatment for assets and liabilities.

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?

We are reluctant to the idea of adding new concepts to the Conceptual Framework if the meaning, definition, and more important the implications for standard-setting are very ambiguous. It is not clear to us how the notion of a business model should improve the existing standard-setting process. Besides missing conceptual and operational criteria to determine the meaning of business model, it is especially unclear whether the business model should result in more accounting options for preparers. We understand that those who are in favour of adding the business model concept to the Conceptual Framework think the business model notion is in-line with the qualitative characteristics of useful financial information in section 3 of the Conceptual Framework. However, taking this view it can be argued that the core idea of the business model is already covered by qualitative characteristics, i.e. relevance and faithful representation.

Furthermore, we are concerned for scenarios where constituents refer to using a business model as an overarching concept to overrule unpopular accounting requirements. We reemphasise our view that a reference to a business model is only useful if there are unambiguous implications for developing and revising Standards. We see the risk that the notion of a business model is considered as a concept that should overrule any other concepts in any cases. So far we are not convinced from existing literature that there is a common understanding what those implications of a business model are. Instead of introducing the notion of business model, we think the IASB should highlight in the revised Conceptual Framework the necessity to consider the economic nature and substance of entity's business activities and events, including the reflection of entity's business environment, when developing or revising particular Standards. We think the IASB could develop criteria that would be of help to understand the economic nature and substance of business activities. We think the IASB is heading in the right direction with the DP proposals in the measurement section.

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?

In the context of the discussion about the definition of assets and liabilities it is fundamentally important to address the bases for the identification, i.e. 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 the issue in the revised Conceptual Framework. We emphasise the so far conceptually unanswered questions raised in the IASB's leases 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.

Therefore, we do not agree with the IASB's preliminary view that the unit of account will normally be decided when the IASB develops or revises particular Standards. Instead, the revised Conceptual Framework should state that normally the unit of account reflects the individually identifiable economic resource or the individually identifiable obligation to transfer an economic resource. We think such a common starting point for developing recognition, measurement and disclosure requirements is needed.

We generally agree that there may be transactions or events where the unit of account needs to be different. However, in such exceptional cases the IASB should explain why a departure from the default approach is necessary.

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?

In our view the going concern assumption has also a relevant role in the context of presentation. For example the distinction between current and non-current line items in the statement of financial position interrelates in some scenarios with the going concern assumption.

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.

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