Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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43. Sitzung IFRS-FA am 02.11.2015
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Dear Hans,

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2015/3 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

We welcome the IASB's efforts towards a more complete and robust Conceptual Framework that forms a common starting point for developing or revising Standards. In our view, the Exposure Draft present some improvements in certain areas towards this goal. Nonetheless, we think some fundamentally important issues remain unclear and no substantial progress was made regarding:

- the performance measurement guidance on the distinction between profit or loss and other comprehensive income; and
- the distinction between equity and liabilities.

Additionally, in many areas the new proposals appear to be more descriptive rather than conceptually-based guidance. Thus, we are concerned that a Conceptual Framework based on the Exposure Draft would not be of great assistance on key questions for developing or revising accounting guidance in particular IFRSs.

As we have highlighted in our comments on the Discussion Paper, one key benefit of having a Conceptual Framework would be to achieve more consistency across Standards. In this context we are not convinced that the proposals will be of great help. For example, listing potential factors that could influence decisions about recognition and measurement are too vague. We expect that the Conceptual Framework provide more rigorous guidance how those factors should be applied by the IASB in the standard-setting process. Similarly, we think it is unhelpful to illustrate potential outcome alternatives without providing any conceptual justification and further description of circumstances when one alternative would be more or less appropriate compared to other listed alternatives.

For more details on our analysis of the proposals we refer to our response to the questions of the ED in Appendix A of this letter. We also attach as Appendix B our comments to EFRAG's Bulletin *Profit or Loss versus OCI*[1] and the underlying proposal that four business models should drive the distinction and the selection of a measurement basis. If you would like to discuss our comments further, please do not hesitate to contact Holger Obst or me.

Yours sincerely,

Andreas Barckow
President

[1] http://www.efrag.org/Front/n1-1501/EFRAG-publishes-a-Bulletin-on-profit-or-loss-versus-OCI-.aspx

Appendix A – Answers to the questions of the exposure draft

Question 1 — Proposed changes to Chapters 1 and 2

Do you support the proposals:

a) to give more prominence, with in the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;

b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;

c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;

d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and

e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

Response to question 1(a):

As stated in our response to the Discussion Paper, we think that the IASB adequately addressed the importance and the role of information about the effective and efficient use of resources by the entity's management in its 2010 Conceptual Framework. It is not clear to us what the 'more prominence' would imply for future development of IFRSs. We think that the IASB must clearly state whether the added 'more prominence' of information needed to assess management's stewardship is changing or extending the set of useful information to be provided in general purpose financial reporting and, more specifically, the financial statements prepared in accordance with IFRS.

In our view, a separate distinct objective of management's stewardship for financial reporting goes beyond the decision-making process described in paragraph 1.2 of the ED, i.e. providing useful information for making decisions about contribution of resources to the entity, as the single overall objective of general purpose financial reporting. In our view, it is widely acknowledged that the term management's stewardship focuses on contracting issues between the management and the owners of the entity (stockholders) and other corporate governance related issues. Therefore, the development of accounting requirements in accordance with the management stewardship premise would encompass considerations regarding the contracting use of financial information, i.e. to provide relevant information with the capability of impacting contracting decisions between management and owners of the entity.

Contrary to this common understanding, the ED limits management's stewardship to information necessary to help users in the assessment of the expected return on investment (paragraph 1.3 of the ED). Therefore, we are concerned that the ED describes management's stewardship differently from the objective that is widely acknowledged in accounting literature and may impair the understandability of the Conceptual Framework itself.

Furthermore, it is not clear to us how potential conflicts between the 'more prominence' of useful information needed for the assessment of management's stewardship and useful information to assess the prospects for future net cash flows would resolve the development of accounting guidance for IFRS primary financial statements. We acknowledge that in many cases the assessment of management's stewardship complements useful information for making decisions about providing resources to the entity. However, there are also legitimate views, widely supported by academic literature, demonstrating that the stewardship purpose demands more prudence in form of accounting conservatism and could conflict with the objective of providing useful information to predict future cash flows. In such a scenario, the standard-setting process would be ambiguous. In other words, the IASB would need to have a form of priority setting or other form of hierarchy order regarding the development of accounting guidance with two non-complementary objectives.

In addition, 'more prominence' of information needed to assess management's stewardship seems to shift the focus of the primary users of financial statements towards the owners of the entity, and not to all capital providers as described in the ED.

Response to question 1(b):
We are not entirely convinced that the proposed change of reintroducing an explicit reference to the notion of prudence represents a helpful update. In our view, the proposed changes do not add any additional information that is not already covered in the description of neutrality as a characteristic of useful financial information. We question whether there are new implications from reintroducing the reference to prudence in the proposed format, especially bearing in mind the IASB's views about asymmetric prudence presented in the Basis for Conclusions of the ED.

We think that many constituents advocating reintroducing prudence as a concept have the asymmetrical treatment of income and expenses in mind that is widely acknowledged as accounting conservatism – in other words: a tendency of earlier recognition of expenses compared to income in case of uncertainty. In the eyes of many constituents, this asymmetry is undeniably anchored in various IFRSs currently. The Basis for Conclusion also acknowledges this kind of asymmetry being part of current IFRS. However, we are not convinced of the IASB's approach in placing such fundamental statements about asymmetry prudence (i.e. a certain degree of conservatism is not conflicting with neutrality) in the Basis for Conclusions. We recommend addressing the issue of asymmetry more clearly in the section about recognition and measurement of elements of financial statements.

Furthermore, we don't think the reference to overstatement and understatement of assets, liabilities, income and expenses is useful without providing further context. Assessments of overstatement or understatement always require a benchmark for the 'right' amount that should not be understated or overstated. So far, the IASB has, in our view, neither developed a robust performance concept nor developed the measurement concepts for assets and liabilities that would provide this benchmark about the 'right' amount. For example, it is not clear whether the measurement of an asset at historical cost in the statement of financial position would be an understatement if it had a higher current value? Or does neglecting risk adjustments when measuring items under conditions of uncertainty systematically result in misstatements?

In addition, because Chapter 2 of the Conceptual Framework characterises the nature of useful information applicable to all forms of general purpose financial reporting, we think it is not helpful to refer to elements of general purpose financial statements that are only introduced in Chapter 3.

Response to question 1(c):
We support the introduction of an explicit statement that financial information is useful if it represents the substance of an economic phenomenon instead of merely representing its legal form.

Response to question 1(d):
We support the statement that if measurement uncertainty is high, an estimate is less relevant than it would be if it were subject to low measurement uncertainty. We also support the conclusion that measurement uncertainty can make financial information less relevant. However, we question whether it is helpful to add measurement uncertainty as a separate issue for relevance of information in Chapter 2.

It seems inconsistent to embed measurement uncertainty as one factor in Chapter 2. Other factors of relevance, for example existence uncertainty, low probability of a flow of economic benefits and separability listed as part of the recognition guidance in paragraphs 5.13-5.21 of Chapter 5, are not embedded in the context of relevance of information in Chapter 2. Furthermore, the information about measurement uncertainty in Chapter 2 and the discussion of measurement uncertainty in subsequent chapters seems to be duplication. We think the Conceptual Framework should be as concise as possible to increase the understandability of the conceptual guidance. Thus, instead of highlighting measurement uncertainty in Chapter 2, we think it would be more helpful and understandable to give more prominence about measurement uncertainty and its implication as part of the recognition and measurement guidance.

Response to question 1(e):
We agree with the IASB's view and the underlying basis for conclusion to continue identifying relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information.

Question 2 — Description and boundary of a reporting entity

Do you agree with:

(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and

(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

Response to question 2(a):
We agree with the description of a reporting entity in paragraphs 3.11-3.12.

In our view, the IASB could further complete the characterisation of the reporting entity by stating clearly in the main body of the Conceptual Framework that the reporting entity is considered to be a for-profit entity. At the moment, it is only indicated in paragraph BC4.28 of the Basis for Conclusions of the ED that the IASB uses the assumption of a for-profit entity in developing the asset definition in the ED. The information that the IASB considers developing accounting guidance only for for-profit entities should not be buried in the Basis for Conclusions.

Further, we believe it would be helpful to clarify whether the reporting entity concept would also be applicable to small and medium-sized entities. In other words, would the revised conceptual guidance also assist the IASB when developing further the IFRS for SME? Otherwise, the revised Conceptual Framework should make clear that SMEs are scoped out from the description of reporting entity.

Furthermore, we consider it to be more appropriate to include the going concern assumption of the reporting entity in paragraph 3.10 of the ED as part of the description of the reporting entity chapter (and not as part of the role of financial statements as drafted in the ED).

Response to question 2(b):
We do not understand the purpose of the discussion in paragraphs 3.13–3.25 about defining the boundaries of the reporting entity through direct and indirect control. In our view, neither the purpose nor the implications of the description are clearly expressed. Further, we question whether

the term ‘boundary of the reporting entity’ is the appropriate wording for what is explained in subsequent paragraphs as consolidated, unconsolidated and combined financial statements.

Moreover, we challenge the Board’s observation in 3.23 according to which consolidated financial statements are generally believed to provide more useful information. We think that consolidated and unconsolidated financial statements serve different purposes and, therefore, provide a different set of information that is equally useful for capital providers. We would agree that most information needs of capital providers are provided with consolidated financial statements. However, some information is only readily available from unconsolidated financial statements, for instance information about solvency and liquidity of an entity; hence, if capital providers were seeking that kind of information, unconsolidated financial statements could be more important than consolidated financial statements. To make the chapter more helpful, we recommend that the IASB would provide explanation of the benefits and limitation of consolidated and unconsolidated financial statements and explain the implications for developing or revising IFRSs.

Lastly, as regards combined financial statements, we refer to our response to question 18 regarding the compliance question.

Question 3 — Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

(a) an asset, and the related definition of an economic resource;

(b) a liability;

(c) equity;

(d) income; and

(e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

Response to question 3(a):

In general, we welcome the proposed changes to the asset definition as we believe that make clearer that it is the resource and not the future economic benefits that represent the asset of the entity. Nonetheless, as already expressed in our comments to the Discussion Paper, we think the notion of control should be considered part of recognition and derecognition and not part of the definition.

Reference to control

We agree with the IASB's view in paragraph BC4.44(b)(i) of the ED that making control part of the recognition criteria would unlikely change the population of assets recognised today and that there are no problems in practice that the IASB would be seeking to address if it made this change. However, we continue to believe that including control in the recognition and derecognition guidance would improve the understandability of accounting guidance and better align with common understanding of the asset term.

We disagree with the IASB's explanation in paragraph 4.10 of the ED that "rights to access public goods […] are not economic resources for the entity if similar rights are available without significant cost". This wording seems to imply that the significance of cost plays a role in determining whether something should be considered as an asset, i.e. should be considered of having the potential to produce economic benefits. Furthermore, this example cannot explain scenarios where entities take the availability of public goods into consideration when making investment decisions. We think that the control notion does explain better why rights to access public goods can be considered economic resources but are not recognised, which is because of the absence of control.

Furthermore, we disagree with the IASB's view in paragraph BC4.44(b)(ii) that moving the reference to control would add complexity to the recognition criteria and might imply a need to identify all possible assets before then using the recognition criteria to eliminate those assets that are not assets of the reporting entity. We think this line of argumentation is unjustified because, in practice, identification and recognition goes hand in hand. Furthermore, disclosure of contingent assets already requires identification of possible assets whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Expected future economic benefits vs. potential to produce economic benefits

We do not share the IASB's view in paragraph BC4.17 of the ED that eliminating the term 'expected' from the definitions and replacing it with the notion of 'having the potential' will not make the definitions either broader or narrower than the existing definitions. We believe that most constituents consider the natural meaning of 'having the potential' to be broader than 'expected' as a form of anticipated possibility by the entity. Hence, the proposals might be perceived as changes that would broaden the definition of an asset. Furthermore, the description of 'having the potential' being 'a feature that must already exist in at least one circumstances' does not make things any clearer or more understandable.

Response to question 3(b):

Our main concerns regarding the proposed definition of a liability belong to the description of what constitutes a 'present' obligation, for which we refer to our response to question 4 below.

Response to question 3(c):

We think one of the main expectations of the Conceptual Framework project was to make progress regarding the distinction between liabilities and equity. By moving any further discussion on this issue into a separate research project, the IASB has not made substantial progress or achieved clarification on an issue that has been the cause of fundamental concerns in practice. We therefore share the concerns by Llyod/Finnegan expressed in the Alternative Views to the ED.

Response to question 3(d) and (e):

We refer to our responses on Questions 12-14 within the context of the statement of profit or loss and other comprehensive income. Generally speaking, we would welcome a better distinction between income and expense items that are recognised as part of profit or loss and other gains and losses that would qualify for recognition as part of other comprehensive income.

Question 4 — Present obligation Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

We agree with the intention to improve the description of the term 'present obligation'. Nonetheless we think the current proposals are difficult to understand as regards their consequences and need further clarifications as addressed in subsequent paragraphs.

Obligation to transfer vs. the potential to require the transfer

We think that the proposed definition of a liability and accompanying explanation is likely to be subject of misunderstanding and misinterpretations. Paragraph 4.27 of the ED includes the following description:

> "An entity's obligation to transfer an economic resource must have the potential to require the entity to transfer an economic resource to another party. It need not be certain, or even probable, that the entity will be required to transfer an economic resource, but the obligation must already exist and there must be at least one circumstance in which it will require the entity to transfer an economic resource."

The common and legal meaning of the term ‘obligation’ is an act or course of action that someone is required to take. The term ‘obligation to transfer’ does not imply a subjunctive but implies that someone is bound to transfer. In other words, if the entity’s obligation to transfer exists, it means the entity is required to transfer. Therefore, the above statement is superfluous and even misleading.

Similarly, we consider parts of the description of existence uncertainty to be confusing and misleading. Paragraph 5.16 of the ED includes the following discussion:

> “For some liabilities, it may be unclear whether a past event causing an obligation has occurred. For example, if another party claims that the entity has committed an act of wrongdoing and should compensate the other party for that act, it may be uncertain whether the act occurred or whether the entity committed it.”

A past event cannot be unclear as far as its occurrence is concerned. An event either has occurred or not, but it cannot be unclear whether it has occurred. It may be unknown and, therefore, it can be uncertain, whether an *obligation to transfer* will arise from the occurred event.

No practical ability to avoid the transfer - Economic consequence significantly more adverse

We think the term ‘economic consequence significantly more adverse’ is not specific enough as all kind of economic considerations can be subsumed by it, e.g. the loss of reputation, the absolute or relative market position, etc. We think it would be very difficult to operationalise standards based on such interpretation of ‘no practical ability to the transfer’ and to draw a line between ‘economic consequence significantly more adverse’ and ‘economic compulsion’. We think the existing guidance for a present obligation – i.e. the entity has little, if any, discretion to avoid the outflow of resources to another party – is, in our view, far less ambiguous and results in more objective and comparable outcomes.

Economic consequence significantly more adverse vs. significant business disruption

Even though we think that the term 'economic consequence significantly more adverse' is vague and could lead to a wide range of interpretations, we think it would cover the scenario of 'significant business disruptions' described as an alternative scenario that fulfils the 'no practical ability to avoid the transfer' condition. Therefore, it is not clear to us why the ED refers to significant business disruptions separately, as it is already encompassed by the condition of 'economic consequence significantly more adverse' than the transfer and therefore unnecessary.

Furthermore, we think clarification is necessary regarding what the IASB meant by referring to 'significant'/'significantly' in this context. Absent further clarification we are concerned that the ambiguity could give rise to different interpretations of whether or not a present obligation exists.

Question 5 — Other guidance on the elements

Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Reclassification adjustments

Reclassification adjustments, i.e. the recycling of recognised accumulated other comprehensive income, do not meet the definition of income and expenses in the period they occur. Therefore, the IASB should acknowledge in the Conceptual Framework those adjustments as items of the statement(s) of performance that do not fulfil the definition of income and expense.

Unit of account

We do not agree with the proposals in paragraph 4.58 of the ED that the unit of account is selected for an asset or a liability after considering how recognition and measurement will apply, not only to that asset or liability, but also to the related income and expenses. We think the unit of account should not be described as a kind of subordinated consideration. In our view, measurement and recognition cannot be considered independently from the unit of account. On the contrary, we think that in most cases the IASB needs to have developed a clear view as to the unit of account before developing recognition and measurement guidance for that unit.

Regarding paragraph 4.59 of the ED and the description that, in some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement, the IASB should describe more clearly what would trigger these cases. The proposed explanation provides no guidance when it would be appropriate for the IASB to consider different units of account and when it would not. As we explain in our response to question 18, we are unsure as to how to interpret the phrase ‘in some circumstances’, as it could be understood to mean ‘by exception only’.

Question 6 — Recognition criteria

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We support the removal of the two general recognition criteria (probable inflow/outflow of economic benefits and reliable measurement). However, we are not convinced that the proposed guidance will be helpful in light of the purpose of the Conceptual Framework. We think that the guidance with a mere reference to relevance, faithful representation, and cost-benefit considerations would make any outcome possible and, thus, remains very vague. The recognition guidance should provide more leaning and rigour that would ensure a degree of consistency across the Standards. Therefore, the IASB needs to develop more rigorous guidance how it would apply the identified factors of relevance and faithful representation. We doubt that merely listing characteristics of financial information as recognition criteria are of any great assistance for the IASB.

In addition, we think the IASB should describe when it should consider developing asymmetric recognition guidance for specific assets and liabilities. In the Basis for Conclusions to the ED the IASB refers to this possibility. However, we think such an important statement should belong to the Conceptual Framework itself rather than the Basis.

Question 7 — Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

We generally agree with the description about derecognition, including the aspects regarding the modification of contracts. Nevertheless, we have the same concerns as expressed for the recognition part in that we doubt that the proposals are of any great help when developing and revising existing standards. In addition, we think the Conceptual Framework should provide more guidance on partial derecognition.

In paragraphs 5.31-5.32 of the ED, the IASB describes possible alternatives if the two aims of derecognition are difficult to achieve. As before, we would have expected a more robust discussion as to when and how the IASB should consider that one alternative is more appropriate than the other.

Question 8 — Measurement bases

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Response to question 8(a):

Overall, we are not convinced that the section as currently drafted is of great help to the IASB for making decisions on the measurement basis when developing or revising Standards. In our view, the identification of different measurement bases would only be useful if there was more conceptual guidance how to apply the measurement concepts. In other words, what conceptually matters (and is currently missing) is the identification and description of measurement concepts and the step-through process that would provide the Board with guidance regarding the application and design of different measurement bases, including any variants and the reasons for potentially chosing them. In our view, a discussion of the two extreme ends of a spectrum of different measurement bases is neither sufficient for developing future Standards nor helpful for the explanation of existing measurement approaches in current IFRSs.

In order to fulfil its stated goals of assisting the IASB when developing Standards and of assisting others to understand and interpret them, we believe that the IASB needs to (a) develop a set of robust criteria that really help the Board making consistent decisions about the measurement basis across Standards; and (b) explain whether and how the bases in existing Standards do conform with these criteria. It is not only for this reason that we reiterate our view cast on the Discussion Paper that the IASB should be reviewing the existing literature to bring it in conformity with its new Framework, be it through an amendment or by explaining in the Basis for Conclusions why it has opted for something different than what is laid down in the Framework.

Lastly, the IASB explains that in 'some circumstances' modifications to the measurement bases can be necessary. For example in paragraph 6.35 of the ED it states:

> "In practice, to provide the most useful information, value in use and fulfilment value may sometimes need to be customised, for example, it may sometimes be appropriate:

(a) to use market participant assumptions about the time value of money or the risk premium; or

(b) to exclude from the fulfilment value the effect of the possibility of non-performance by the entity.“

We think this kind of listing alternatives without describing the circumstances for ‘sometimes’ is neither conceptual nor helpful for a Framework that has the objective to assist the IASB in developing or revising IFRSs. The IASB should explain or characterise the scenarios when those ‘sometimes’ should apply.

Response to question 8(b):
Whilst we believe that the description is faithful, it is not clear to us how the IASB would use the description of what information is provided by each measurement basis and the related explanation of advantages and disadvantages. As said before, we think the Conceptual Framework should provide more rigorous guidance on how to apply this information. Furthermore, instead of listing the information provided by each measurement basis, we think it is more important to describe more clearly the objective of the statement of financial position and the statement(s) of performance, to discuss the information that is required to fulfil those objectives and to explain how the information can be conveyed by chosing a certain measurement basis. Absent this, we see little benefit of the table in paragraph 6.47 of the ED.

Question 9 — Factors to consider when selecting a measurement basis
Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

We think the listed factors are broad enough to cover all kind of aspects that may impact the selection of a measurement basis. Nevertheless, as there is no hierarchy for those factors or other guidance as to how these factors should be applied and/or weighed, we believe the proposed description about selecting a measurement basis to be of little help for developing or revising Standards. As indicated in our comments on the Discussion Paper, we think that the selection of a measurement for a particular asset should depend predominantly on how that asset contributes to future cash flows (and for a particular liability how the entity intends to settle or fulfil that liability.) In this regard, we wish to emphasise that neither business activities nor any form of business model should be regarded the sole factor for selecting a measurement basis. In this context we refer to our response to EFRAG’s Bulletin in Appendix B.

Further, it is not clear to us how the selection of one measurement basis – and the description of the purpose of that measurement basis – would align with existing measurement guidance in some IFRSs that appears to be a combination of different measurement bases with 'lower-of' or 'higher-of' value thresholds. For example, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* includes a measurement requirement for the lower of carrying amount and fair value less costs to sell..

Question 10 — More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC 6.6 8? Why or why not?

We disagree with the approach discussed in the ED. It is not clear to us on what basis the IASB would conclude when precisely more than one measurement basis is needed to provide relevant information and why. Merely stating that 'sometimes' this is the case raises the question as to when it does and when not. Furthermore, it is also not clear what drives the IASB's conclusions that 'in most cases' of those 'sometimes' cases the disclosure in the notes is sufficient but 'in some cases' it would be necessary to provide the information in the statement of financial position and the statement(s) of financial performance. In our view, the description in paragraphs 6.74-6.77 of the ED is more a depiction of what is found in current IFRSs, which is not helpful for assisting the IASB in the future development of consistent IFRSs.

It is not clear to us, whether the term 'sometimes' should indicate a form of exceptionality. If this was not the case, we think the Conceptual Framework should only describe the scenario when multiple measurement bases should be considered, without any reference to the frequency of occurrence. Furthermore, it should include guidance as to when the disclosure of amounts based on the alternative measurement basis in the notes would be sufficient and when not (cf. 6.75 et seq.). Conversely, if the term 'sometimes' was intended to refer to an exception, we would question whether it is necessary to include such guidance as part of the Conceptual Framework. Paragraph IN3 of the ED already indicates that 'sometimes' the IASB may specify requirements that depart from aspects of the Conceptual Framework.

Generally, we believe multiple measurement approaches for the same element(s) significantly increase the cost relative to the benefits for users of financial statements. Therefore, we do not support conceptual guidance that would give leeway for more multiple measurement approaches.

Question 11 — Objective and scope of financial statements and communication
Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We consider the benefits of the proposed guidance to be very limited. Particularly, in our view, the chapter is missing a form of disclosure framework that the IASB would use for the development and revision of note disclosures. We understand there are ongoing activities in the Principles of Disclosure project that may bring improvements to this area. However, it is not yet clear to us whether and how the Conceptual Framework would benefit from those parallel activities.

We had expected that a chapter about presentation and disclosures would provide more guidance for future development of note disclosures. Instead, the chapter repeats information already expressed in chapter 3 about the role of financial statements. In this context, it is not clear to us whether there is a difference between the 'role', the 'objectives' and the 'purpose' of financial statements. We recommend harmonising the wording. Furthermore, and to improve the understandability of the Conceptual Framework, we think the description about the content and components of financial statements were be better placed in Chapter 3 *Financial statements and the reporting entity*. Chapter 7 *Presentation and Disclosure* should contain the conceptual guidance with objectives and principles for developing disclosure and presentation requirements for the primary financial statements and the notes.

More specifically as regards paragraph 7.6 of the ED, we think it is not helpful to justify information about transactions or events that have occurred after the end of the reporting period as part of the financial statements 'if such information is necessary to meet the objective of financial statements'. We think this kind of wording equally applies to all other financial information and is therefore boilerplate guidance. We think the IASB should describe more clearly the scenario as to when the information is necessary to meet the stated objective.

Furthermore, the wording used in paragraph 7.3 of the ED describes a very narrow scope of content of the notes. Most disclosure requirements in current IFRSs would not meet that description. More importantly, the IASB seems to develop a more comprehensive discussion about the content and the role of the notes in the Principles of Disclosure project. It is not yet clear to us how and whether the Conceptual Framework will benefit from those activities.

Lastly, we believe that the main concepts of good communication are already expressed with the qualitative characteristics of useful financial information as described in Chapter 2 of the ED. Particularly; we consider that good communication is achieved by maximising the enhanced qualitative characteristic of comparability, understandability and timeliness of information.

Question 12 — Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

Generally speaking, we agree with the statement in paragraph 7.21 of the ED that income and expenses included in the statement of profit or loss are the primary source of information about the entity's financial performance for the period. We also agree with the description that the purpose of the statement of profit or loss is to provide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources. That being said, we question whether such a broad description of the purpose can be of any help in light of the objectives of the Conceptual Framework.

The wording 'return an entity made on its economic resources during the period' in paragraph 7.20(a) of the ED as an additional purpose of the statement of profit or loss is not clear to us. The term 'return' has a wide range of meanings and the IASB should provide more explanation what it is considered for the statement of profit or loss. Further, we question how meaningful the return measure can be if the income and expenses included in the statement of profit or loss follow a mixed measurement approach, i.e. different measurement bases with different purposes.

We disagree with the fact that the IASB discusses the distinction between profit or loss and other comprehensive income (herein referred to as 'OCI') as part of Chapter 7 *Presentation and Disclosure*. In our view, this distinction is not a presentation or disclosure issue but belongs to the measurement discussion, more specifically to measurement of performance. Therefore, we suggest covering the discussion of profit or loss in Chapter 6 as part of performance measurement.

Question 13 — Reporting items of income or expenses in other comprehensive income

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

We do not think that the proposals provide useful guidance for when to use OCI. Thus, we share the alternative view from Cooper/Finnegan to the extent that with the proposed guidance the IASB effectively will be in no better position for future decisions about the use of OCI than it is now. In our view, the IASB should describe more clearly the circumstances when income and expenses do not represent the performance of the period and should therefore be recognised as OCI.

Question 14 — Recycling

Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

We support a recycling approach of accumulated other comprehensive income through profit or loss, but we do not support the proposed guidance of a rebuttable presumption based on enhanced relevance. Generally, all income and expenses that are recognised in OCI should be recycled through profit or loss when presenting the performance of the period. Omission from recycling should be considered an exception only and should be based on cost constraints that could be identified at a Standards-level.

Question 15 — Effects of the proposed changes to the Conceptual Framework

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

As already addressed in our comments on the Discussion Paper, we think an impact assessment of a revised Conceptual Framework is necessary for existing IFRSs. Therefore, we appreciate the analysis about the effects of the proposed changes to the Conceptual Framework in paragraphs BCE.1-BCE.31. Nonetheless, in our view, the analysis appears only done half way and, therefore, of limited benefit. We think that a thorough Standard-by-Standard analysis is needed to achieve an inventory of inconsistencies and other technical issues that cannot be derived from the guidance of the revised Conceptual Framework. Otherwise, the Conceptual Framework cannot achieve one of its objectives, as expressed in paragraph IN1(c), to assist all parties to understand and interpret the Standards.

For example paragraphs BCE.1-BCE.31 do not address IFRS accounting options available to preparers aiming at recognising income or expense in OCI instead of recognising them in profit or loss. Such an option appears to be inconsistent with the proposals in the ED. Similarly, accounting guidance that requires accumulated other comprehensive income to be transferred directly to retained earnings without recycling through profit or loss, for example the revaluation method in accordance with IAS 16, does not appear to be in line with the proposals in the ED.

We also oppose the proposal not to identify requirements that, although considered by the IASB to be consistent with the concepts proposed in the ED, currently are explained using different concepts in the Basis for Conclusions. The objective of the Conceptual Framework to assist all parties to understand and interpret the Standards would, in our view, require identification of any guidance that is currently explained with different concepts, even if the requirements are considered to be consistent with new concepts.

Question 16 — Business activities

Do you agree with the proposed approach to business activities? Why or why not?

Generally speaking, we agree with the IASB's approach that the nature of the entity's business activities plays a relevant role for developing or revising future IFRSs. In our view, the IASB should be more specific and describe more clearly how consideration of business activities will affect the development or revision of future IFRSs. We think that the current proposal will not be of great help to the IASB.

Furthermore, we are not convinced with the IASB's view that the nature of the entity's business activities has no impact regarding the development of recognition criteria for particular events or transactions. Unless there is no clear conceptual basis as to why recognition cannot be influenced by the nature of an entity's business activities, we think the IASB should not jump to such a conclusion in the Conceptual Framework.

Question 17 — Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

We agree with the IASB's conclusions on long-term investments.

Question 18 — Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

Financial Statements prepared from the perspective of the entity as a whole

Paragraph 3.9 of the ED highlights that financial statements are not prepared from the perspective of any particular group of investors, lenders or other creditors, instead they are prepared from the perspective of the entity as a whole. We question the usefulness of this statement without any further explanation of its implications. We doubt that the IASB has a clear vision as to what this wording should or should not imply. We also do not see this statement as an indicator for an 'entity theory' that would be contrary to a proprietary perspective of financial statements. Therefore, we recommend removing the statement or provide an explanation of the conceptual implications.

Unhelpful wording of "sometimes", "some cases", "most cases", "some circumstances"

Compared to the existing Framework, we observed that the IASB very often uses words like 'sometimes', 'in some cases', 'in most cases', 'in some circumstances' in the ED to describe possible alternatives or variations. Often, these alternatives are described together with a single example but without providing the conceptual foundation for those alternatives. We consider such wording unhelpful and regard the usage as conceptual weakness in the guidance. We think the Conceptual Framework should avoid these terms as they might also be misinterpreted as indicators for exceptions vs. a default treatment, assumptions and methods. In our view, the Conceptual Framework should list the alternatives with the principle when an alternative is superior to others.

Compliance with IFRSs

The ED refers to the 'going concern assumption' and 'combined financial statements'. We noticed from our constituents that, in practice, the question occurs as to whether combined financial statements can be prepared in compliance with IFRSs. A similar question exists whether financial statements can be compliant with IFRSs if the reporting entity is not going concern. We think it would be helpful in light or providing more understandability of IFRSs, if the Conceptual Framework provided an indication whether in those scenarios compliance with IFRSs can be asserted.

Chapter 8 – Capital maintenance

Chapter 8 in its current format does not provide very helpful guidance. Nonetheless, we think conceptual guidance about capital maintenance is a fundamental component of measurement guidance on performance. In our view, current IFRSs, except for IAS 29 *Financial Reporting in Hyperinflationary Economies* and the revaluation method in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, are based on the concept of nominal capital maintenance. Therefore, we suggest removing Chapter 8 but including, as part of the measurement and performance discussion, a description about the underlying assumption regarding nominal capital maintenance when developing or revising future standards.

Appendix B – ASCG response to EFRAG's Bulletin *Profit or Loss versus OCI* [2]

[2] http://www.efrag.org/Front/n1-1501/EFRAG-publishes-a-Bulletin-on-profit-or-loss-versus-OCI-.aspx