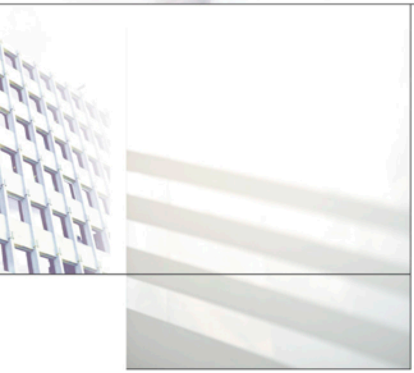

EFRAG

European Financial Reporting Advisory Group

EFRAG's document for public consultation on the IASB Exposure Draft *Conceptual Framework for Financial Reporting*

14 September 2015

EFRAG's due process has started…

- Due process started on the basis of an analysis and preliminary positions.
  - Reviewed and validated by the EFRAG Board as the basis to start the EFRAG's due process.
  - Before the EFRAG Board expresses preliminary views.

- More substantive analysis by the EFRAG Board will take place to reflect EFRAG's widened mandate.

Stewardship

- Welcomes the greater prominence given to the assessment of management's stewardship of the entity's resources in the description of the objective of financial reporting.
- Disagrees with subsuming stewardship in a general object-tive of providing useful information to support decisions involving buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
- EFRAG/ICAS study on the use of financial information – does it depend on the objective?
- Financial statements seems more important for the assessment of stewardship than for buying, holding and selling decisions.

Faithful representation and relevance

- Measurement uncertainty should be an element of 'faithful representation' rather than of 'relevance'.
- Should 'reliability' be used instead of 'faithful representation'?
  - Is it an opportunity for gaining a better understanding of the boundary of a reliable measurement?
  - Is 'faithful representation' well understood?

Prudence

- Welcomes the re-introduction of prudence.
- Agrees with the Basis for Conclusion that prudence may lead to asymmetry in the recognition of assets/income and liability/expenses without introducing any undesirable bias in financial reporting.
- But the conclusions in the Basis for Conclusions should be included in the Conceptual Framework itself.
- Disagrees that prudence should not be subservient to neutrality.
- The focus should be on how it affects standard-setting rather than the behaviour of preparers of financial statements.

Capital maintenance

- Asks whether the existing chapter on capital maintenance should be kept in the Conceptual Framework.

Definitions of elements

- Appears that the proposed definitions are easier to understand – but will test.
- Disagrees with removing the description of revenue.
- Disagrees with stating that if one party has a liability another party has an asset.
- Asks constituents whether the asset/liability approach leads to more robust and consistent financial reporting than a pure matching approach.

Present obligation

- Generally agrees with how a 'present obligation' is described – but consequences need to be assessed (e.g. deposit guarantee scheme).
- Generally agrees with the description of a constructive obligation.

Liabilities and equity

- Accepts that a separate project on this issue is necessary.
- Outcome of the separate project should be reflected in the Conceptual Framework.

Recognition and derecognition

- Broadly agrees with the guidance on recognition.
- In some areas, the guidance may be insufficient to ensure consistent standard-setting (e.g. unclear how uncertainty will affect recognition).
- Agrees with the guidance on derecognition.

Measurement

- Broadly agrees with the categorisation of measurement bases.
- Broadly agrees with the description of the information provided by each of the measurement bases.
- Should have considered other market-consistent measurement bases than fair value.
- Guidance on how to select a measurement bases is insufficient – outcomes in future standard setting will heavily rely on the IASB's judgement of what 'relevant' information is.
- Asks constituents how to select measurement bases when listed factors conflict.
- Asks constituents about the use of different measurement bases for the statement of financial position and the statement of profit or loss.
- Ideas on measurement for consultation are also published in the Bulletin *Profit or loss versus OCI.*

Presentation and disclosures

- Supports the proposals on the objective and scope of financial statements and communication.
- Supports the description of the statement of profit or loss.
- But should consider how to distinguish between presentation and disclosure.
- Should ensure a common understanding of ‘return on an entity’s economic resources’.
- Profit or loss should not be “as inclusive as possible”.
- Ideas on how OCI should be used are published in the Bulletin Profit or loss versus OCI.
- Recycling should be based on a principle.

Bulletin *Profit or loss versus OCI*

- The ED states that only income and expenses arising from remeasurements can be reported in OCI.
- It presumes that all income and expenses go to P&L, unless excluding them makes P&L more relevant.
- But it does not explain when the IASB should overcome the presumption.

Bulletin *Profit or loss versus OCI*

- Extends and rationalises the ED proposals.
- Aims at relevant performance reporting from a business model perspective.
- Builds on debates held in the IASB Accounting Standards Advisory Forum (ASAF).

Bulletin *Profit or loss versus OCI*

Step 1: Identify business model

- Price change
- Transformation
- Long-term investment
- Liability driven.

Step 2: Determine relevant measurement basis for primary performance (profit or loss)

Step 3: Test whether this measurement basis is relevant for the statement of financial position – if not, the difference is reported in OCI.

Bulletin *Profit or loss versus OCI*

Potential outcomes:

- Fewer options for PPE, inventories and investment properties.
- No impact in profit or loss of revaluation of items in a long-term business model.
- Changes in estimates of expected cash outflows in relation to pension liabilities are reported in profit or loss.
- Business model could play a role for financial instruments which do not meet the SPPI test.

Status of the Conceptual Framework

- EFRAG agrees that the status of the Conceptual Framework should not be changed and EFRAG agrees that departures from the Conceptual Framework should be explained in the Basis for Conclusions.

Expectations about the Conceptual Framework:

- Understanding on what basis the IASB will make its standard-level decisions in the future:
  - Avoid repeated hot debates on recognition.
  - Promote in the standard setting process:
    - Greater confidence.
    - Greater efficiency.
- Have the Conceptual Framework in tune with current standard setting.

Financial statements and reporting entities

- Agrees that a reporting entity is not necessarily a legal entity.
- Agrees that an entity can prepare both individual and consolidated financial statements.
- Should not include a statement that consolidated financial statements are more likely to provide useful information without acknowledging the circumstances where this may not be the case.
- Should explain the implications of the entity approach.
- Asks whether there is an urgent need to justify the choice of control as the basis for consolidation from a conceptual perspective.

Comments on EFRAG's draft comment letter should be submitted by 26 October 2015* to commentletters@efrag.org

*** The comment period may be extended should the IASB decide to extend its comment period.**

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