



International Accounting Standards Board
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Cc: EFRAG

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

Representing preparers' point of view, the Swedish Enterprise Accounting Group (SEAG) welcomes the opportunity to comment on the Exposure Draft ED/2015/3, (ED).

Summary of views

SEAG welcomes the ED and congratulates the IASB on a successful project hitherto, which has been accomplished in a timely manner. From a preparer perspective, a coherent and comprehensive framework is not only significant as a foundation for the standard setting process, but also as source of general guidance for individual entities.

On an overall basis, we are positive to the IASB's proposal and we believe that the revisions together with the added sections forms a more complete framework than the current. Creating a theoretically consistent framework without compromising on user availability is a great challenge. We believe that the IASB has succeeded with this task on a general level. However, there are passages of the proposal appears less comprehensible from a preparer perspective. One such example is the delineation of executory contracts. To achieve consistent application as well as maintaining the legitimacy of IASB's work, we would like to emphasize the significance of monitoring the complexity of both the framework and the individual standards. From the viewpoint of a country where English is not the primary language, this issue is particularly vital.

In summary, we consider that the IASB's approach to the concepts of stewardship and prudence is well balanced and we believe that the primary users of financial statements have been correctly identified in the framework. The new section on measurement is a welcome addition to the current guidance. However, and as further explained below, we challenge the current overuse of measurements of current value based on discounted cash flow models. We also believe that the uses of other comprehensive income could have been further clarified in the proposal.

Specific comments on the questions raised by the IASB are provided in the Appendix below. Some of these comments refer to the document issued for public consultation on July 8 2015 by the European Financial Reporting Advisory Group (EFRAG). SEAG has responded to EFRAG's consultation individually. We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE



Sofia Bildstein-Hagberg

Secretary of the Swedish Enterprise Accounting Group

The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

Appendix – Answers to specific questions for respondents

Question 1—Proposed changes to Chapters 1 and 2

Do you support the proposals:

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

SEAG supports that assessment of management stewardship is acknowledged as a constituent in the depiction of the objective of financial reporting. As mentioned above, we believe the primary users of financial information are correctly identified and that this definition is vital for a coherent framework. In our view, considering these primary users, IASB's proposed description of management stewardship as an element in the assessment of both changes in economic resources and financial performance is properly balanced.

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

SEAG supports that the notion of prudence is reintroduced in the framework. In practice, prudence is a crucial factor when making accounting assessments. From a preparer perspective it is therefore natural that the conceptual framework contains a reference to this concept. However, it is vital that prudence is not misused as a motive for systematic misstatements. For these purposes, we believe that the proposed linkage that designates prudence as an aspect of neutrality will work well.

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

We welcome that substance over form is stated explicitly as an attribute of faithful representation. In our experience, the concepts of legal form as opposed to economic substance are broadly established. Therefore we do not see a need for further clarification in the framework.

- (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

We support that measurement uncertainty is described as a factor that can make financial information less relevant and that there is a trade-off between measurement uncertainty and other factors that make information relevant. As this trade-off will vary from case to case in the practical application, a more specific explanation would in our view not be of any benefit to the framework. Thus, we do not believe that the conceptual framework should contain further clarifications of the boundaries of reliable measurement. In addition, we agree

with the IASB that the framework should refrain from containing a quantitative threshold for materiality.

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

We support that relevance and faithful representation are identified as the two fundamental qualitative characteristics of usefulness. We believe that faithful representation, as a concept, is more easy to grasp and therefore preferable to reliability.

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

SEAG agrees with the description of the reporting entity. The definition of the reporting entity should not be limited to legal boundaries.

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

Control is a recurrent and central concept in several standards. We believe that the IASB better should have explored the possibility to introduce a coherent definition of control within the framework. However, we don't believe the IASB should take any action in this area at this point, as this would much likely cause a significant delay of the process.

We do not support the assertion in paragraph 3.23 that consolidated financial statements are more likely to provide useful financial information. We do not see why there is a need for such a statement in the framework. Furthermore, it is unclear to us what the term "unconsolidated financial statements" refers to as this concept, to our knowledge, is not defined in the framework nor in any standard.

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?

SEAG agrees with all the proposed definitions of elements. We believe that the connection between the definitions of assets and liabilities, i.e. that the framework states that what is an asset for one party is a liability for another party, is vital. However, to avoid misunderstandings the framework could benefit from a more distinct declaration of the difference between the existence of assets/liabilities on one hand, and on the other hand the recognition criteria for these elements.

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.

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.

We believe that the description of executory contracts in paragraphs 4.40-4.42 is difficult to comprehend. Based on the proposed text, we doubt whether we, in practice, would be able to correctly identify all contracts that the definition comprises. Clear examples would probably be helpful here. In addition, and as pointed out in EFRAG's consultation document, we are not sure what the outcome would be when applying the recognition criteria on an executory contract

Other than that, we believe that the proposed guiding principles and examples illustrating the definitions are satisfactory.

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 agree with the proposed approach to recognition, which we believe adheres correctly to the concept of faithful representation.

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?

SEAG agrees with the proposed discussion of derecognition. We welcome that the proposal is based on general principles for derecognition based on both control and risk-and-rewards. We also agree on the proposed approach to determining how retained components should be handled when developing or revising particular standards, i.e. that this is an issue linked to the determination of unit of account and measurement basis.

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?

Yes, we believe that the measurement bases are correctly identified. We do not see the need for alternative market based measures other than those presented in the proposal.

(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?

Yes, we believe the provided information is properly described.

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 connection between measurement bases and information quality could be described better in the framework. In this regard, we agree with the view in EFRAG's consultation document that the framework should provide more guidance on the selection of measurement bases. However, in our opinion the reference to business models as a starting point for selecting the proper measurement basis is an issue for individual standards, and not the conceptual framework.

On an overall basis, we strongly believe that the occasions when the measurement of current value for non-financial assets based on discounted cash-flow models should be accepted, ought to be restricted to a minimum. The element of measurement uncertainty in these estimations is, in most cases, too high. Nevertheless, these measurements can have a vital impact on the financial statements, the best example being the impairment test of goodwill. This is one of the most vital flaws within the IFRS, and we believe that the IASB needs to address this problem promptly.

Question 10—More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

We do not agree with the IASB that the best way to provide information in situations where more than one measurement base is relevant is to use disclosures, as proposed in paragraph 6.75 (b). Typically, this argument is used for requiring disclosures about fair values of fixed assets. However, such disclosures are in most cases based on very uncertain estimations and are of very little relevance for the users of financial statements. It is therefore difficult to justify the cost of providing the information, which can be very high.

Nevertheless, there are some cases where more than one measurement base indeed is relevant. When these circumstances occur, we believe that it may be appropriate to apply different measurement bases in the statement of financial position and the statement of profit and loss. The framework should be clearer on when these situations occur and they should not be referred to as exceptions to the general rule.

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?

On an overall basis, we agree on the description of the objective and scope of financial statements. However, we are concerned with the example provided in paragraph 7.4 about the need for information about estimates of cash-flows. Such information is often detailed and difficult to comprehend. We believe that the need for information of this type is limited to a few measurable basics such as discount rates etc.

In addition, we believe that the principle concerning the duplication of information in paragraph 7.18 could be more straight forward. In our view, the duplication of information is often unnecessary, but does not automatically make financial statements less understandable. Therefore, there is no need for an explicit explanation in the framework that this is the case.

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.

We support the proposed description of the statement of profit or loss.

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?

In our opinion, the uses of other comprehensive income need to be explained further in the framework. We agree with the IASB that the statement of profit or loss should be as inclusive as possible. However, as we pointed out before, there are situations that justify the use of other comprehensive income, for example when there are more than one relevant measurement basis. Such situations should not automatically be depicted as exceptions from a general rule. As it is, the proposed framework gives little guidance to what the “compelling reasons” that BC7.42 refers to are. We therefore fear that without further elaboration of this matter, the guidance will be of little help in the future standard setting process.

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?

As a general principle, we believe that all income and expenses included in other comprehensive income should be recycled to the profit and loss statement. We don't see the reason why IASB proposes to include an exception to this principal rule. If a rebuttable presumption is to be included in

the framework, it has to be explained further. We fear that the proposed reference to relevance is too vague, and could open up to misuse.

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?

We agree with IASB's analysis.

Question 16—Business activities
Do you agree with the proposed approach to business activities?

In general, the purpose of the framework should be to provide general principles applicable to all reporting entities. We fear that the framework would lose significance if divergent principles applied concurrently depending on the business model. In the long run, such an approach could affect the coherence of individual standards and thus the relevance of financial statements. However, under some circumstances references to business activities could be relevant when preparing individual standards. For this purpose, the conceptual framework would benefit from a better description of when this approach to standard setting is appropriate. In addition, business activities as a concept for standard setting should be better defined in the framework.

Question 17—Long-term investment
Do you agree with the IASB's conclusions on long-term investment? Why or why not?

Yes, we agree.

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.

In certain situations, individual entities may have based an applied accounting policy on the current framework which gives rise to transitional issues. SEAG notes that the IASB plans to allow for a transition period when updating references to the framework in individual standards. We agree with this approach.