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Berlin, 24. November 2015

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 presents some improvements in certain areas towards this goal. Nonetheless, we think some fundamentally important issues remain unclear and no substantial progress has been 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 proposals are descriptive in nature and do not constitute 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 would have expected from a revised Conceptual Framework that it provides more

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rigour as to how these 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 or further description of circumstances as to when one alternative would be more or less appropriate compared to other alternatives listed.

For more details on our analysis of the proposals we refer to our responses 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*<sup>1</sup> 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

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<sup>1</sup> <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 already 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 state clearly whether the '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 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 a management stewardship premise would encompass considerations regarding the contract-



ing 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 the 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 that are widely supported by academic literature, which demonstrate that the stewardship purpose requires 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 prudence represents a helpful update. In our view, the proposed changes do not add any information that is not already covered in the description of neutrality as a characteristic of decision-useful financial information. We question whether there are new implications from reintroducing the reference to prudence in the proposed format, especially when bearing in mind the IASB's views about asymmetric prudence presented in the Basis for Conclusions of the ED.

We think that many constituents arguing in favour of reintroducing prudence as a concept have the asymmetrical treatment of income and expenses in mind, which 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 asymmetric 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 do not find the reference to overstatement and understatement of assets, liabilities, income and expenses is useful without providing further context. Assessments of overstatements or understatements 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 to us whether the measurement of an asset at historical cost in the statement of financial position would be considered 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?

Lastly, as Chapter 2 of the Conceptual Framework characterises the nature of useful information applicable to all forms of general purpose financial reporting, we do not find it 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 the helpfulness of adding measurement uncertainty as a separate issue for relevance of information in Chapter 2. Other factors of relevance, for example existence uncertainty, a 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, information about measurement uncertainty in Chapter 2 and the discussion of measurement uncertainty in subsequent chap-



ters seems to lead to unnecessary 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 (with a preferable loop-back to paragraph 1.2 of the draft Conceptual Framework where the reporting entity is first mentioned). 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.

Furthermore, we wonder whether it would be more logical to move the going concern assumption of the reporting entity in paragraph 3.10 of the ED to of the section on the reporting entity chapter (and not as part of the role of financial statements as drafted in the ED). The IASB states in paragraph 3.10: “This [draft] Conceptual Framework is based on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future.” Hence, the criterion of a going concern appears to be a characteristic of the reporting entity rather than the financial statements.

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 expressed clearly. 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 being served sufficiently with consolidated financial statements. However, in our view, the importance of information for capital providers depicted in separate financial statements - being the unconsolidated financial statements of the legal entity - should not be undervalued regarding their relevance in the revised Conceptual Framework. Some information is more readily available from the unconsolidated financial statements, for instance information about the solvency of the legal entity. To make the chapter more helpful, we recommend that the IASB provide an explanation of the benefits and limitations of consolidated and unconsolidated financial statements and explain their 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 they 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 that 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 the accounting guidance and better align with the 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 argument 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 any 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 or likelihood from the view of 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 to 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 Lloyd/Finnegan expressed in the Alternative Views to the ED. In addition, we refer to our responses on Question 18 for further research regarding the concept of wealth transfers as was proposed in the Discussion Paper.

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.

**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 that the current proposals, in particular the concept of ‘no practical ability’, are difficult to understand as regards their consequences and need further clarifications as addressed in subsequent paragraphs. We are especially concerned that the concept as drafted in the ED would result in an undesirable range of subjectivity for identifying the entity’s present obligations.

*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 or 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 that the phrase ‘economic consequence significantly more adverse’ is not specific enough since all kinds of economic considerations can be subsumed under 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 feel that 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 far less ambiguous and results in more objective and comparable outcomes.

Furthermore, it is not clear to us whether the IASB sufficiently considered potential unintended consequences of the proposed wording, especially as regards the distinction between equity and financial liabilities. We are concerned that the description of this concept could imply that some financial instrument, usually classified as equity, must be reclassified as liabilities because the settlement and subsequent emission of new bonds could prevent from economic consequences that are significantly more adverse. For example a perpetual bond would require continuous re-evaluation whether paying the agreed steady stream of interest is in current market condition economically more adverse than its settlement and new bond emission. We think that such an opportunity cost approach about economic consequences should not impact the distinction between equity and liabilities.

*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 is meant when 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.

*Constructive obligations - customary practice*

As part of the constructive obligation guidance, paragraph 4.34 of the ED refers to customary practices, published policies or specific statements as possible reasons for present obligations to transfer of an economic resource that are otherwise not legally enforceable as a consequence of a contract, legislation or similar means. We agree with this guidance in the context of the existing accounting guidance for non-financial liabilities in IAS 37 about constructive obligations. Nonetheless, we wonder whether this guidance could have implications regarding the classification of financial instruments as equity or financial liabilities. E.g., think of a co-operative’s charter containing a right to refuse redemption, which in practice is rarely



exercised, if ever; in other words, the co-operative has a past customary practice of redeeming instruments being put by the unitholder. We think that the wording suggested in the ED could cast doubt as to whether this customary practice should impact the distinction between equity and liabilities. Therefore, we recommend that the revised guidance should better reflect that customary practice, published policies or specific statements would not be considered as a qualifier impacting the distinction between equity and liabilities.

**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 as to 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) from a conceptual point of view that also aims to remove a few perceived inconsistencies with recognition guidance in current IFRSs. However, and as expressed above in our response to question 3, we reemphasise our view that control should be included as a recognition criterion and not be part of the elements definitions.

Furthermore,, 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.

As already emphasised in our comments on the Discussion Paper, we propose the revised Conceptual Framework should state more clearly that a probability threshold regarding future economic benefits is considered an appropriate mechanism in particular Standards to operationalise professional judgement as to whether a present obligation or an economic resource exists, i.e. to operationalise existence uncertainty in light of cost/benefit considerations.

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 of 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 be more specific as regards 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 choosing 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 that 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’ cases would 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 this information is to be applied. 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 choosing 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 basis 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 that there are ongoing activities in the Principles of Disclosure project that may bring improvements in 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 a useful tool for making decisions that would guide the IASB when developing note disclosures in the future. 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 should not be considered predominantly as part of presentation or disclosure issues but should belong to the measurement discussion, more specifically to the measurement of performance. Therefore, we suggest covering the discussion of profit or loss vs. OCI in Chapter 6 as part of performance measurement of the period, i.e. as part of the discussion on selecting an appropriate measurement bases applying to income and expense recognised in 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? 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 put forward by 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/benefit 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 the 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 by the IASB's view that the nature of the entity's business activities has no impact as regards the development of recognition criteria for particular events or transactions. Unless there was a 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. Further, such a statement appears to be in conflict with the existing recognition requirements in IAS 39/IFRS 9 as regards regular-way transactions: Here, we believe that it is the reference to business activities that led the IASB to come forward with different recognition criteria for those that enter an order for certain goods to be used in production and those that merely live on price differentials.

**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 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 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.

*Concept of wealth transfers between classes of equity*

In our comments on the Discussions Paper for revising the Conceptual Framework we indicated our general support for exploring further the outlined concept of wealth transfer between classes of equity. We still think that the underlying idea of this wealth transfer concept has merits for providing additional useful information, particularly for classes of instruments where current requirements lead to tensions as regards their classification, measurement and presentation. Thus, we encourage the IASB to consider the ideas further in other projects or as a distinct research project.



**Appendix B – ASCG response to EFRAG’s Bulletin *Profit or Loss versus OCI*<sup>2</sup>**

**Question 1 Different measurement bases**

Do you agree that different measurement bases may be needed to provide relevant information in both the statement of financial position and in the statement of profit or loss? Do you agree that the first step in the process should be to identify the most relevant measurement basis for the statement of profit or loss? Do you agree that the choice of both measurement bases be driven by the business model?

*More than one measurement basis*

Generally, we are of the view that different measurement bases are needed to account for different types of transactions or other events. However, we are of a different view as to whether more than one measurement basis should be used to account for a specific transaction or event in both, the statement of financial position and in the statement of profit or loss. In our view, using more than one measurement basis for a specific transaction or event in the statement of financial position and the statement(s) of financial performance should be considered an exception if income or expense would not reflect the entity’s performance of the period. To evaluate whether specific changes in assets or liabilities do not reflect performance of the period, the nature of the business transaction could have a role to play.

In addition, we do not agree with the proposal that the statement of profit or loss should be considered as the starting point for selecting the measurement basis. By definition, the measurement of assets and liabilities and the recognition of income and expense should go hand in hand. We do not believe that information about the entity’s financial position is less relevant than information about the entity’s financial performance that could justify such a stepped process, i.e. making the selection of the measurement basis for the statement of profit or loss as the first step.

*Selection of measurement basis based on the business model*

As acknowledged in our previous comment letter on EFRAG’s research paper *about The Role of the Business Model in Financial Statements*<sup>3</sup>, we believe that financial statements can be made more relevant if standard setters take into account how entities conduct their business activities when developing or revising standards. However, we do not support the

<sup>2</sup> <http://www.efrag.org/Front/n1-1501/EFrag-publishes-a-Bulletin-on-profit-or-loss-versus-OCI-.aspx>

<sup>3</sup> [www.drsc.de/service/docs/index.php?ixdoux\\_do=show\\_docs&type\\_id=2&cat\\_id=57&base\\_doc\\_id=171](http://www.drsc.de/service/docs/index.php?ixdoux_do=show_docs&type_id=2&cat_id=57&base_doc_id=171)





bulletin's proposal that the 'business model' should be the sole driver for selecting the measurement basis and decisions whether more than one measurement basis is appropriate to account for specific transaction or event. We believe that other factors, for example the entity's risk profile, the nature of the asset etc, should not be neglected. We see our view confirmed by the Summary Report of the Joint Outreach Investor Event – *Could profit or loss (P&L) become more useful* that was published by EFRAG in July of this year.

Furthermore, we think that the business models as described in the bulletin lack robust definitions and further descriptions. For example, the notion of the 'same market' used in the description of the price change business models is not clear to us. We also consider that these business models would not be easy to identify in practice, because an entity may take a strategy that could reflect a combination of two or more business models described in the bulletin. Especially when transaction costs are low and the assets are highly fungible, it would be difficult to identify one business model.

Finally, EFRAG acknowledges in the bulletin that the business model would not provide the answer for all measurement questions. For example, in paragraph 23(b) of the bulletin EFRAG states that for transformation business models a standards-level decision as to whether finished goods available for sale should be measured at current value would still be needed. Thus, key questions regarding the selection of a measurement basis and recognition of corresponding income in the statement of profit or loss would not be answered. Similarly, the rather descriptive business model approach does not seem to deliver answers on the important question about accounting for changes in interest rates.

**Question 2 Considering the business model**

Do you agree with the descriptions of the various business models? Do you agree with the suggestions in the paper in how they would be portrayed in the profit or loss and financial position of entities? Are there other business models that it would be necessary to identify for financial reporting perspectives? If so what are they? What measurement bases would they require and why?

We refer to our response on question 1. In our view, the descriptions of the various business models are not clear and without further descriptions the identification of a business model does not appear feasible. We would also like to note that, in our view, granting defined pension benefits as part of employees' compensation packages should not be considered as a 'business model' of the entity.

We prefer not to respond to the subset of questions regarding other, additional business models that would be necessary to identify for financial reporting perspectives, which is owing to our objection to the identification of the business model as the sole driver for selecting the measurement basis.

**Question 3 OCI items**

What are your views on the proposal to include differences resulting from applying different measurement bases and incomplete transactions in OCI?

We think that the description of the proposals reflect the cases where OCI is used in current IFRSs and what was described as potential components of OCI in the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, i.e. the use of OCI in cases of mismatched remeasurements, bridging items and transitory remeasurements. Generally, we agree that those components would be typical candidates of income and expense that do not reflect the performance of the period.

**Question 4 Recycling**

What are your views on the proposal to recycle amounts included in OCI as a result of applying different measurement bases under long-term investment business models?

We agree with this proposal. 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. Alternatively, recycling could be made mandatory in all cases provided practical simplifications were in place. However, with respect to the wording of question 4, we want to highlight that recycling may apply to liability-driven business models as well, as described on page 11 of the bulletin.

**Question 5 Current value measurements in the statement of financial position**

For the purpose of the statement of the financial position (not the statement of profit or loss), would you be in favour of greater use of current value measurements than required today? What are the reasons for your views?



We observed that the bulletin primarily focuses on the question whether income and expenses from using a certain measurement basis should be recorded in the statement of profit or loss or OCI. In our view, EFRAG also needs to demonstrate how the business model relates to the selection of a measurement basis in the statement of financial position, as this question is not addressed in the bulletin. As long as the relevant measurement basis for the statement of financial position remains undefined, we are not in the position to definitely answer question 5. However, we think that, based on a principle that involves the business model amongst other notions, a greater use of current value measurements might appear relevant in certain circumstances.

**Question 6 Changes in interest rates**

Do you think the discount rate should be updated, and if so, should the effect of the changes be included in OCI or in profit or loss? What are the reasons for your views?

Conceptually speaking, it seems to be generally accepted to consider updating all observable market parameters when measuring items at fair value, and changes in interest rates are one of these observable market parameters. That being said, we are not aware of any theoretical basis for answering the question whether changes in such parameters should be deemed income or expense and, as such, relevant drivers of financial performance, and to what extent. The problem is even bigger when assets or liabilities are measured at cost. Equally, we are not aware of any theoretical basis for determining what parameters, other than time value of money, comprise the discount rate at initial recognition. We refer to the recent discussions at ASAF in this regard. Therefore, the question raised above cannot be answered.