



EFRAG, ANC & FRC Research Paper:  
*The Role of the Business Model in  
Financial Statements*

December 2013

# Background

- Prepared in partnership by EFRAG and the French and UK standard setters
- Research Paper aims to explore the implications of the business model for financial statements
- A related Bulletin on the same topic was issued in July 2013
- The comment period for the Research Paper closes on 31 May 2014. Please send comments to [commentletters@efrag.org](mailto:commentletters@efrag.org)

# □ The Notion in IFRS and IAS

## Explicitly used:

- IFRS 9 *Financial Instruments* (2009)
- ED Conceptual Framework (2008)

## Implicitly used:

IAS 2  
*Inventories*

IAS 40  
*Investment  
Property*

...and  
*others as  
well*

# Business model versus management intent

- Business model is distinct from management intent
- The two notions are similar in some respects, both are entity specific, both have relevance, and are verifiable (if documented)
- However, the two notions differ in that a business model is generally more stable focusing on the larger picture and is usually more observable and easier to verify
- Management intent is more relevant on a transactional level

# □ Our assumed meaning of the term

- No commonly understood meaning of the term ‘business model’
- No universal view on relationship/distinction with strategy, business purpose, management intent, management actions
- Research Paper uses an assumed meaning focused on the value creation process, i.e. generation of cash flows: how is an entity ‘making money’

# □ The conceptual discussion

- Does financial reporting based on the business model provide:
  - Relevant information?
  - Faithful representation of economic phenomena?
  - Information that is comparable?
  - Information that is understandable?
- It is difficult to meet these objectives if the business model is ignored

# The implications

- The business model should (continue to) play a role in financial reporting
- The Research Paper argues it is time for a change to the current ad-hoc use and it should be included in the Conceptual Framework with appropriate guidance for standard setting
- It should play a role in:
  - Recognition
  - Measurement
  - Presentation and disclosure



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