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By e-mail: Commentletters@efrag.org

13<sup>th</sup> January 2014

Dear Sir/Madam,

**EFRAG Draft Comment Letter regarding IASB Discussion Paper "A  
Review of the Conceptual Framework for Financial Reporting"  
DP/2013/1**

The Danish Accounting Standards Committee (DASC) set up by "FSR - danske revisorer" is pleased to submit the following comments:

Our main comments are in short the following:

1. We believe the conceptual framework (CF) should not only assist the IASB in developing standards, but should also assist preparers and auditors when an issue is not covered by existing standards.
2. We believe that the recognition criteria should still include a probability criteria.
3. We support the present definition of liabilities including constructive obligations.
4. Generally DASC supports the existing definition of equity as assets less liabilities. We also support the entity approach and we have some sympathy for listing the liability and equity instruments giving appropriate disclosure about the rights and obligations of the individual instruments.
5. We support in principle to have few alternative measurements, but we are not necessarily convinced having the smallest number of measurements is the best solution, because the key should be to have the most relevant information and it might mean additional measurements might be necessary and IASB should not be prohibited from electing the most relevant measurement.
6. We believe IASB should consider the consequences for the CF that the name is conceptual framework for Financial Reporting and not only CF for financial statements. It has implications for the content of the notes in the way we believe information in the corporate report should only be given once in the annual report. We believe IASB should take ownership and responsibility for the entire financial report as issued for approval by the shareholders. It is important to avoid duplication or even to avoid information to be repeated twice or more times and it might also assist in decreasing the size of annual reports and to ensure the report as matter of principle only includes relevant and material information.

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7. We support the objectives of the notes to be defined and criteria to be developed in the CF for when to require note disclosures.
8. We believe the IASB needs to cover comprehensively materiality in the CF.
9. Our primary view is that the performance of the year consists of all the items adding up to the movements in the net assets except for movements in relation to the shareholders, and the important issue is how to explain the individual items to the users to ensure a proper understanding of what has happened. In our view it should be in one statement and with proper subtotals, explanations in the line text and the notes. We are not convinced the present P/L is conceptually based and the strong support from many constituents may be due to tradition. We would rather request IASB to have as objective to develop some thinking of what performance means in a conceptual meaning, and in this respect the business model thinking may provide helpful support.
10. We support the first chapters of the Conceptual Framework should be revised. We believe it should appear from the first chapters that the objective of assessing stewardship is as important as assessing the prospects for future cash flows. Reliability should be reintroduced as a concept and it should be explained how prudence fits into IFRS.
11. DASC believes going concern is an accounting concept and there is uncertainty in practice how to understand it and we believe IASB should properly define and describe it in the CF in order to meet the needs of its constituents.

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We would be happy to elaborate further on our comments should you wish so and feel free to contact Stig Enevoldsen.

Kind regards

Jan Peter Larsen  
Chairman of the Danish  
Accounting Standards Committee

Stig Enevoldsen  
Member of the Danish  
Accounting Standards Committee

## Response to specific questions

### Question 1

**Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:**

- (a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and**
- (b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.**

**Do you agree with these preliminary views? Why or why not?**

We do not agree that the CF should only be used to assist the IASB in setting standards. We believe the CF should be like a constitution for standard setting meaning that new standards cannot be developed contrary to the text of the CF. If the IASB wants to consider issuing a standard conflicting with the CF they should seek to amend the CF prior to issuance of the standard. The reason is that a standard contrary to the CF either means the standard is flawed or the CF is, and we find it important to be sure to clarify which of the two should be corrected. It is important the CF is so well thought through at this stage that such conflicts will only happen very rarely and mostly when IASB give in to pressure to circumvent appropriate principles to satisfy lobby groups to allow a specific treatment. Should such rare circumstances occur, the departure from the CF should be explained not only in the basis for conclusion but also in the standard.

We also quite liked the principle in the 1989 CF that it may be used to assist preparers and auditors in practice when resolving issues not covered by standards. We much prefer such a use of the CF compared to use other not so similar GAAP's such as US GAAP, Japanese GAAP or EU accounting directives as a basis when the issue is not covered by a standard. (We generally believe the reference in IAS 8 to an "accounting hierarchy" should be removed and replaced by a reference to the CF particularly today, where IFRS is so much more developed compared to what it was when the 1989 CF and IAS 8 was issued.)

Should the IASB anyhow continue with it we agree with EFRAG draft CL explaining that conflicts should be explained and a full and continuously updated list of deviations from the CF should be made public and it should also be explained in the individual standards deviating from the CF.

## Question 2

**The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:**

- (a) an asset is a present economic resource controlled by the entity as a result of past events.**
- (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.**
- (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.**

**Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?**

The Danish Accounting Standards Committee supports the new definitions of assets and liabilities. We agree that “expected” should be removed from the definition and the uncertainty rather be included in the recognition criteria, please see later.

We agree with IASB that existence uncertainty need not to be covered in the CF, and we prefer the outcome uncertainty to be dealt with in relation to recognition and measurement.

We also believe the new definition to be better suited to make room for considering intellectual property and other intangibles as assets. However we are not convinced the term “economic” should be used together with resources in the definition of assets. If the IASB find that the suggested definition should remain unchanged, then the basis for conclusion should as a minimum explain the difference between “resources” and “economic resources”.

**EFRAG** has discussed whether an economic resource should be defined as a right, or other source of value, that is capable of producing economic benefits *to the entity*. We agree the asset should produce economic benefits to the entity and we believe it should be explained in connection with the definition of assets.

### Question 3

**Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB’s preliminary views are that:**

- (a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is ‘expected’. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.**
- (b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.**
- (c) the recognition criteria should not retain the existing reference to probability.**

**Do you agree? Why or why not? If you do not agree, what do you suggest, and why?**

We believe that outcome uncertainty should be covered by the recognition criteria. If the probable outcome is very low we see no merit in estimating an amount that will probably not be realized ever. Therefore we believe that the recognition criteria should still include the probability criteria.

**To EFRAG:** We believe existence uncertainty is rare, and we find it helpful to have the distinction between the two types of uncertainty explained in the CF.

### Question 4

**Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52**

**Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?**

DASC believes that no primary financial statement should have primacy over the other primary statements. This means that the statement of financial position should not have primacy over the statement(s) of profit or loss and other comprehensive income. DASC is aware that some believe that defining income and expenses based on changes in assets and liabilities results in the statement(s) of profit or loss and other comprehensive income being secondary to the statement of financial position. We do not share this view. We agree that the profit and loss statement derives from the changes in assets and liabilities, but the objective of P&L is to also give information about level of activity for the entity.

DASC believes it would be useful to define contributions to equity, distributions of equity and transfers between classes of equity instruments. DASC notes that it is currently not always clear whether, for example, certain transactions with shareholders should be considered equity transactions or not.

We believe the CF should make it possible to conclude whether share based payment is an expense/cost or not, because if it might be seen as a transaction with equity holders we are not convinced it should be treated as an expense/cost.

## Question 5

***Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations – and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50.***

***Do you agree with this preliminary view? Why or why not?***

We support the present definition of liabilities including constructive obligations.

DASC agrees that the IASB should retain the existing definition of a liability which encompasses both legal and constructive obligations. DASC agrees with the arguments presented in the DP that excluding some constructive obligation could provide less relevant information to users of financial statements about the entity's future cash flows relating to past events. Moreover, DASC considers excluding some constructive obligations would not result in a faithful representation.

## Question 6

***The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97 of the DP. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:***

- (a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.***
- (b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.***
- (c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.***

***The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.***

***Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.***

We are concerned about this discussion, because we are not convinced the alternatives are explained and clarified fully in the DP. It is not fully clear to us what the differences particularly between view 2 and view 3 are. We would prefer

to maintain liabilities and constructive obligations to be defined as they are today.

### **Question 7**

***Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?***

DASC has no further comments.

## **SECTION 4 RECOGNITION AND DERECOGNITION**

### **Question 8**

***Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB’s preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because:***

- (a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or***
- (b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.***

***Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?***

DASC prefers to have probability included in the recognition criteria in order to give a faithful representation in the FS, because including assets with a very low probability to generate future cash flows will not provide relevant information. Similarly to include assets where no available measure would provide relevant information for instance when the range of possible outcomes is wide also will not provide relevant information. We prefer such concerns to be included in the recognition criteria by including a probability threshold. We prefer it to be a probability threshold even though it might be difficult, rather than having guidance in the CF on the matter, because it will be having a lower importance compared to have the threshold included directly.

#### **To EFRAG:**

DASC therefore supports in principle View 1 in your draft comment letter, however we are concerned the three steps will make it too detailed for a CF, (however we do like the content of the three steps approach). In addition we are not supporting to have different recognition criteria for assets and liabilities. If EFRAG believes to have different criteria for assets and liabilities EFRAG should also argue for reintroducing the prudence concept, which we do not really support.

### **Question 9**

***In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:***

- (a) enhanced disclosure;***
- (b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or***
- (c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.***

***Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?***

DASC supports the proposals – the control approach - included in the DP, but thinks guidance should be provided on the difference between a modification of an asset or liability and derecognition of an asset or liability and recognition of another “modified” asset.

DASC agrees with the DP that in most cases an asset or a liability should be derecognised when it no longer meets the recognition criteria (or no longer exists), or is no longer an asset or a liability of the entity. However, there may be cases where another approach may result in more useful information. DASC therefore also agrees with the DP that when the entity retains a component of an asset or a liability, the IASB should determine, when developing or revising particular Standards, how the entity would best portray the changes that resulted from the transaction.

However, DASC considers that the IASB should develop on a Conceptual Framework level principles that could be used to distinguish modifications from derecognition of one asset or one liability and recognition of another asset or liability.

### **Question 10**

***The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1-5.59 of the DP. In the IASB's preliminary view:***

- (a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.***
- (b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:***
  - (i) obligations to issue equity instruments are not liabilities; and***
  - (ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a) of the DP).***
- (c) an entity should:***
  - (i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure or an allocation of total equity.***
  - (ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.***
- (d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.***

***Do you agree? Why or why not? If you do not agree, what changes do you suggest and why?***

Generally DASC supports the entity approach and we have some sympathy for listing in the balance sheet the liability and equity instruments giving appropriate disclosure about the rights and obligations of the individual instruments. In principle all the holders of the instruments have rights towards the entity. Having said that we support (a), (b) and (c) above, and we support the "strict approach", however we are aware of issues particularly in relation to re-measurement of the secondary equity claims. Particularly we are concerned and we are not convinced of the rationale for the re-measurement and the cost-benefit has not been satisfactorily demonstrated.

DASC is not convinced (d) is the right conclusion when no equity instruments are issued, and we would prefer "just" to list the assets and the liabilities and disclose the fact that no equity instruments are issued.

#### **TO EFRAG:**

DASC has sympathy to the draft response to Question 10, however we support strongly an entity approach and we are therefore not convinced of your proposal to see the issue from the point of view of the shareholders. Secondary equity - we believe - should also be treated as equity and we do not believe they are fundamentally different seen from the entity's point of view.

We certainly disagree with the EFRAG proposal stated in the draft comment letter (DCL) paragraphs 220-223.

However we agree it is important to maintain the content of IFRIC 2 as described in the EFRAG DCL paragraph 167 (a)

### **Question 11**

***How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35 of the DP. The IASB’s preliminary views are that:***

- (a) the objective of measurement is to contribute to the faithful representation of relevant information about:***
  - (i) the resources of the entity, claims against the entity and changes in resources and claims; and***
  - (ii) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.***
- (b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;***
- (c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;***
- (d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:***
  - (i) for a particular asset should depend on how that asset contributes to future cash flows; and***
  - (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.***
- (e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and***
- (f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.***

***Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?***

DASC somehow agrees with IASB, however we are not convinced about the IASB has got it right in relation to the objective of financial reporting, because we might prefer to have reliability instead of faithful representation and we believe stewardship should be a specific criteria, and the two differences will most likely have implications for measurement. Moreover we would like the DP to more specifically explain why stewardship is not mentioned in connection with faithful representation

We will also mention that we are not convinced the objectives of measurement and the objectives of financial reporting are the same. The IASB ought properly to justify this assertion.

Generally we would be inclined to support to have as few options as possible including having only few alternative measures, however we are not necessarily convinced having the smallest number of measurements in the best solution,

because the key should be to have the most relevant information and it might mean additional measurements might be necessary and IASB should be not prohibited from electing the most relevant measurement.

We understand EFRAG recommends having the role of business model on measurement to be evaluated, and we find it helpful and convenient if the role of business model is considered in connection with development of the CF, however we are not convinced it influences what measurements should be mentioned in the CF, but rather how and when they are used in standards.

DASC does not support to have different measurement bases for the statement of financial position and the statement(s) of profit or loss and OCI, because it is unhelpful to users and confusing. It seems only to help standard setters not conclude properly on the best solution or to facilitate some standards issued by particular NSS.

As noted above we still believe stewardship to be an equally important objective of financial reporting and we believe the influence on measurement should be considered at this stage of developing the CF, for instance selecting a measurement basis might not only be depending on the way the asset contributes to future cash flows or how liabilities are settled.

## **Question 12**

***The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73 – 6.96 of the DP. The IASB's preliminary views are that:***

- (a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.***
- (b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.***
- (c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.***
- (d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.***

***Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would***

DASC is not convinced to have only four categories as we are considering a trading category in addition to or replacing (b). We believe assets being actively traded including fungible inventory such as grain, metals and similar items it would be appropriate to measure at current value. If category (b) should stay as listed by IASB it would mean ordinary inventory should be measured at current prices and it may be consistent with measurement of say investment property and some level three financial instruments, but we do not support such a direction for inventory, and we therefore recommend (b) to be changed.

We agree with EFRAG Draft comment letter view in para 277 that IASB should not be conclusive in the CF about what situations fall under the respective categories, because there is a risk only to consider the issues of the day,

whereas we believe to CF to be a long-term document based on lasting principles.

As mentioned earlier we also believe considerations should be given to stewardship and how reliable the measurement is. We do not agree that an uncertain measurement becomes faithful just by adding loads of disclosure to compensate for the lack of reliable input.

DASC believes there should be a linkage between measurement and presentation.

We also believe holding assets for collection should be measured at cost and particularly if we talk about floating interest rates. We agree that instruments with significant variability in either contractual cash flows or net value flows such as derivatives should be measured at current value.

We are not convinced it is appropriate to decide on category (d) at this stage, because it might only be seen as part of deciding on the current leasing issue.

We will like to mention we are supporting the IASB views on internally constructed assets, and we note it especially because of the controversy over IFRIC 12 some years ago, and we believe the paragraphs 6.71 and 6.72 in the DP should have consequences for IFRIC 12 also because IFRIC 12 has been used by analogy.

### **Question 13**

***The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109 of the DP. The IASB's preliminary views are that:***

- (a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.***
- (b) a cost-based measurement will normally provide the most relevant information about:***
  - (i) liabilities that will be settled according to their terms; and***
  - (ii) contractual obligations for services (performance obligations).***
- (c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.***

***Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.***

DASC believes cash-flow based measurements are approximations of cost or current market value and therefore we are not convinced view (a) is needed as a specific view, but would rather fit in as explanatory material.

We will mention that DASC is concerned to include own credit risk in the measurement of liabilities except when a liability in well justified cases are measured at current market value such as the Danish mortgage bonds for the Danish Mortgage Institutions.

Generally we support EFRAG views in their draft comment letter paragraphs 296 – 308 as quoted below

### **Liabilities without stated terms**

The IASB's DP states that it is impossible to measure liabilities without stated terms at cost as the liability does not have a cost. It is therefore argued that a cash-flow based measure other than estimates of current prices may be the only possible options for such liabilities.

EFRAG believes that applying a cash-flow based measure could be used to estimate a current value or cost, therefore, it would also be possible to measure liabilities without stated terms, such as liabilities arising from torts or violations of laws or regulations, at a current value or cost.

The DP includes a list of issues that should be considered when deciding, on a standards level, how to construct a cash-flow based measure (see paragraphs 6.112–6.130 of the DP). However, EFRAG notes that the DP does not provide any preliminary views on how a cash-flow based measure for liabilities without stated terms should be constructed (for example, how to deal with uncertainties about the amount of cash flows, i.e. the most likely amount or the expected probability-weighted value; whether the view of market participant or reporting entity's perspective should be reflected etc.), therefore it is not possible to assess the consequences of that proposal.

### **Liabilities with stated terms but highly uncertain amounts**

The DP also concludes that a cash-flow based measurement (other than one that functions to estimate current prices) provides the most relevant information for liabilities with stated terms but highly uncertain amounts. The argument provided is that for liabilities of this type, a cost-based measure is unlikely to provide relevant information and current market prices may be difficult to determine.

EFRAG believes that circumstances in which current market prices are difficult to determine first call into question whether the measurement objective should be to represent current market prices. For example, EFRAG recommended early on in the Insurance Contracts project that an entity-specific settlement value measurement objective was more relevant than a current market price objective, as current market price estimates would be highly hypothetical and transferring insurance liabilities was not a characteristic of the business model of an insurer. The absence of observable market prices should call into question whether a market exists and therefore whether a transfer scenario is probable. If, after further analysis, a current market price measurement objective is confirmed as a fair representation of an entity's business model or of the underlying economics of a specific transaction, cash flow based estimates should be used.

### **Liabilities with stated terms that are settled by cash or by delivering other assets according to the terms**

EFRAG believes that the use of a cost-based measure could be appropriate for a liability that is expected to be settled by an entity through the payment of cash or delivering other assets according to its terms.

EFRAG believes that if the obligation is expected to be fulfilled by the payment of cash or delivering other assets according to the term, a cost-based measure would be the appropriate measurement basis for both the statement of comprehensive income and the statement of financial position, because it would reflect future cash outflows from an entity.

For example, if a financial liability cannot be transferred then measuring that liability at a current market price reflects, in comprehensive income, changes in market prices that cannot be realised. Consequently, these liabilities are viewed as analogous to assets held for collection. Therefore, EFRAG agrees with IASB's preliminary view on this issue.

However, derivatives that are liabilities should be measured at a current market price or another measure that varies according to the cash flows required by the contract. EFRAG believes such a measure is a much better indicator of ultimate cash flows than a cost-based measurement, therefore EFRAG also agrees with IASB's preliminary view on this issue.

### **Liabilities with stated terms that are settled by being transferred to a third party without negotiating for consent of the creditor**

EFRAG agrees with the argument in the DP that the most relevant measure of a liability that will be settled by being transferred would be a current market price, or a current market price plus transaction costs, because that is an estimate of the cash that will be paid to induce another party to assume the liability.

### **Liabilities with stated terms that are settled by performing a service or paying others to perform services**

EFRAG believes that an appropriate measurement basis for a liability that is expected to be settled by the performance of services or, payments to others for performing services, would differ depending on whether (i) an entity performs the services or (ii) an entity pays others to perform services.

*If an entity performs the services, a cost-based measure starting with the proceeds received (in some cases with interest accretion) is likely to be appropriate for such obligations, especially if the services are a recurring revenue-generating activity, because it provides information about recurring components of profit or loss and that information can be used to derive expectations about future margins.*

*However, the current market price of the services may be more relevant information if the entity will pay others to perform the services.*

#### **Question 14**

***Paragraph 6.19 of the DP states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:***

- (a) if the ultimate cash flows are not closely linked to the original cost;***
- (b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or***
- (c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).***

***Do you agree with this preliminary view? Why or why not?***

Danish ASC broadly agrees but also refers to our earlier comments

#### **Question 15**

***Do you have any further comments on the discussion of measurement in this section?***

No.

### Question 16

***This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:***

- (a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and***
- (b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8 of the DP), including:***
  - (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;***
  - (ii) amendments to IAS 1; and***
  - (iii) additional guidance or education material on materiality.***

***Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:***

- (a) presentation in the primary financial statements, including:***
  - (i) what the primary financial statements are;***
  - (ii) the objective of primary financial statements;***
  - (iii) classification and aggregation;***
  - (iv) offsetting; and***
  - (v) the relationship between primary financial statements.***
- (b) disclosure in the notes to the financial statements, including:***
  - (i) the objective of the notes to the financial statements; and***
  - (ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.***

***Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.***

Danish ASC will mention again we are not convinced about the quoted objective of financial reporting as mentioned earlier, however neither are we convinced it is important for discussing note disclosure.

As mentioned earlier, we do not agree with the objective mentioned in the first (a), but we agree with the very high level statements in the second (a) in the question, however, we do believe more should be done to properly define and explain materiality (and going concern for that matter), please also refer to our comments to question 17.

We also believe IASB should consider the implications of the name of the CF namely conceptual framework for Financial Reporting and not only CF for financial statements. It has implications for the content of the notes in the way we believe information in the corporate report should only be given once in the

annual report. We believe IASB should take ownership and responsibility for the entire annual report as issued for approval by the shareholders. It is important to avoid duplication or even to avoid information to be repeated twice or more times and it might also assist in decreasing the size of annual reports. The criteria ought to be to that only relevant and material information is included. However we know it is controversial because it may involve areas where other standard setters believe to have rights.

In relation to the notes we support the objectives of the notes to be defined and well developed in the CF. However it is a major piece of work, where we refer to the DP from EFRAG, ANC and FRC with the additional comment that the limitation of the EFRAG, ANC and FRC paper was that it only allowed the definition of disclosures to be backward looking and it did not discuss placement of information in the annual report which we believe is necessary to avoid duplication and is necessary to create a CF of the future. In addition we believe it would be important to also to develop criteria for when to require note disclosures.

We support the IASB's view about inclusion of forward looking information in para 7.39 and we support the outlined principles in table 7.1, with the caveat that we might come back in the ED stage with further comments.

We will mention that we disagree with paragraph 7.36 in so far as key drivers in our opinion should be described in the management commentary (MC) and not in the notes. Preferably we would also like to see risk reported in the MC instead of the notes. Again we reiterate the need for a holistic view to corporate reporting to avoid duplication

### **Question 17**

***Paragraph 7.45 of the DP describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.***

***Do you agree with this approach? Why or why not?***

The Danish ASC believes the IASB needs to cover comprehensively materiality in the CF. There is in practice uncertainty about how to interpret and use materiality and the recent years consultation papers from ESMA and IAASB confirms this uncertainty. In addition it became clear from the responses to ESMA that commentators believe materiality is an accounting concept and therefore should be properly defined and described in the IASB CF. Danish ASC supports the content of 7.46(d) and IASB should most certainly take on this responsibility and not chicken out.

The same is the case for the matter of going concern (GC). GC is an accounting concept and there is uncertainty in practice how to understand it and we believe IASB should properly define and describe it in the CF in order to meet the needs of its constituents

### **Question 18**

***The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.***

***Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?***

***If you agree they should be included, do you agree with the communication principles proposed? Why or why not?***

Danish ASC agrees to include communication principles in the CF, however we would like to reiterate our above comments and we believe the communication principles should not only be for the financial statements (FS), but for the entire annual report. We believe the story telling should rather be in the MC and NOT in the FS. However it might be positive to have communication principles for the notes. Please see our comments to question 16.

### **SECTION 8 PRESENTATION IN THE STATEMENT OF COMPREHENSIVE INCOME—PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (OCI)**

#### **Question 19**

***The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.***

***Do you agree with this preliminary view? Why or why not? If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?***

We would like to start by saying we believe it is an issue to resolve in the CF whether profit or loss and OCI should be presented in one or two statements, and therefore we do agree that the "only" issue to be resolved in the CF is what items should be in one or the other of the statements. IASB ought to define the objective of the performance statement / comprehensive income.

Our primary view is that the performance of the year consists of all the items adding up to the movements in the net assets except for movements in relation to the shareholders, and the important issue is how to explain the individual items to the users to ensure a proper understanding of what has happened. In our view it should be in one statement and with proper subtotals, explanations in the line text and the notes. We are not convinced the present P/L is conceptually based and the strong support from many constituents may be due to tradition. We would rather request IASB to have an objective to develop some thinking of what performance means in a conceptual meaning, and in this respect the business model thinking may provide helpful support.

Having said that and should IASB not go the above route it would be important to define very clearly OCI objective and describe the content. In this respect we believe OCI is very dependent on recognition and measurement decisions, for example it seems some fair value/ current value measurement requirements in the standards courses IASB to avoid having volatile movements in P/L such as changes in pension liabilities and some other changes in fair value. We are not convinced the measurement might be all that perfect if IASB does not dare to have the consequences properly reflected in P/L also if the amounts become big.

Changes in pension liabilities are effects of past decisions/events and the same goes for other items put through OCI today.

We are not convinced there is a need for two statements in order to be able to predict future cash flows: It might as well be possible if there is one statement only with proper line item nominations and relevant subtotals.

## **Question 20**

***The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss; i.e. recycled, is discussed in paragraphs 8.23–8.26.***

***Do you agree with this preliminary view? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?***

***If you do not agree, how would you address cash flow hedge accounting?***

As mentioned in our answer to Q 19 we are not convinced there should be two statements, but provided we accept two statements our starting point would not be to support any re-cycling, because we believe one can only decide when the objectives of the two statements have been defined. We do not want to preempt the definition neither do we want to make the P/L the ultimately most important of the two statements

## **Question 21**

***In this Discussion Paper, two approaches are explored that describe which items could be included in the OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78 of the DP) and a broad approach (Approach 2B described in paragraphs 8.79-8.94 of the DP).***

***Which of these approaches do you support, and why?***

***If you support a different approach, please describe that approach why do you believe it is preferable to the approaches described in this Discussion Paper.***

Firstly we refer to our responses to Q 19 and Q 20 but if we have to choose how to re-cycle we would prefer alternative 2B for the reasons stated by the IASB in the DP and in that case we believe the business model might help to get the performance of the entity disclosed.

## SECTION 9 OTHER ISSUES

### Chapters 1 and 3 of the existing Conceptual Framework

#### Question 22

**Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.**

**Do you agree with this approach? Please explain your reasons.**

**IF YOU BELIEVE THAT THE IASB SHOULD CONSIDER CHANGES TO THOSE CHAPTERS (INCLUDING HOW THOSE CHAPTERS TREAT THE CONCEPTS OF STEWARDSHIP, RELIABILITY AND PRUDENCE), PLEASE EXPLAIN THOSE CHANGES AND THE REASONS FOR THEM, AND PLEASE EXPLAIN AS PRECISELY AS POSSIBLE HOW THEY WOULD AFFECT THE REST OF THE CONCEPTUAL FRAMEWORK.**

As a specific matter Danish ASC believes auditability is an important matter, and the issue should be covered in the CF, because if the information cannot be audited it may be less relevant for the users, and we believe IASB must consider this matter and cover it in the CF.

Moreover, the Danish ASC agrees with the EFRAG comments in their draft comment letter as quoted below and we support that the first chapters of the Conceptual Framework should be revised. We believe that it should appear from the first chapters that the objective of assessing stewardship is as important as assessing the prospects for future cash flows. Reliability should be reintroduced as a concept and it should be explained how prudence fits into IFRS.

*EFRAG believes that a fundamental discussion is needed on the Chapters 1 and 3 of the Conceptual Framework on stewardship, reliability and prudence. EFRAG's views on these issues are further explained in the following paragraphs.*

#### **Stewardship**

*Paragraph OB4 of the existing Conceptual Framework states:*

*To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.*

*Accordingly, the existing Conceptual Framework acknowledges that financial reporting should provide information that would be useful for assessing stewardship (or 'accountability' which some consider to be a better term).*

*However, it appears also from OB4 that the current Conceptual Framework seems to:*

*State that providing information to help existing and potential investors assess the prospects for future net cash inflows to an entity is the primary objective of financial reporting. Providing information that is useful for assessing stewardship is just something that could be useful for assessing future cash flows.*

*Assume that information about stewardship is useful for estimating future cash flows. In other words, information that is useful for assessing stewardship is also useful for estimating future cash flows.*

*As it is explained in the Bulletin Accountability and the objective of financial reporting issued by EFRAG, ANC, ASCG, OIC and FRC, EFRAG disagrees with both of these assertions.*

*EFRAG thinks that providing information that is useful for assessing stewardship is as important as providing information to assess the prospects for future net cash inflows to an entity. EFRAG, however, notes that academic literature shows that information most useful for estimating future cash flows is not always the most useful for assessing stewardship. The Conceptual Framework should acknowledge this. In cases where the two objectives would conflict, a decision would therefore have to be taken on which objective is considered most important in the current case. This decision should be considered on a standards level and be subject to public consultation.*

*EFRAG notes that the Conceptual Framework only deals with financial reporting. In order to avoid doubt, EFRAG would, however, specify that it does not think that financial information is the only means by which stewardship should be assessed.*

### **Reliability**

*EFRAG acknowledges that the DP suggests that an entity should not recognise an asset or liability if no measure of the asset (or liability) would result in a faithful representation of a resource or obligation of the entity, or of a change in its resources or obligations, even if all necessary descriptions and explanations are disclosed.*

*EFRAG agrees with this suggestion. Academic literature suggests that reliability is at least equally important as relevance, and that disclosure of the process and inputs into an estimate cannot always compensate for measurement uncertainty.*

*Although EFRAG agrees with the suggestion to consider faithful representation when recognising assets and liabilities, it thinks that this should also lead to some changes in how faithful representation is explained in Chapter 3 of the current Conceptual Framework. In the view of EFRAG the most appropriate would simply be to replace the term with 'reliability'. 'Reliability' should be defined in the same way it was in Conceptual Framework before 2010. That is, 'reliability' would, as a starting point, mean that information:*

*should be free from material error and bias.*

*can be depended upon by users to represent faithfully that which it either purport to represent or could reasonably be expected to represent. This also means that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.*

*is prepared under the exercise of prudence (see below).*

*is complete.*

*EFRAG acknowledges that besides including the reference to prudence (which is further considered below) and specifying that transactions and other events should be presented in accordance with their substance, the elements of 'reliability' are similar to those used to describe 'faithful representation' in the current Conceptual Framework. However, EFRAG thinks that when the term was changed in 2010 from 'reliability' to 'faithful representation', there was also a change in the context in which reliability should be considered. EFRAG is of the opinion that before the change in 2010, there was a trade-off between relevance and reliability which should be reintroduced. That is, information could be relevant without being reliable and vice versa. After the changes all reference to this trade-off have been removed. EFRAG believes that this trade-off should be reintroduced. EFRAG thinks that reintroducing the trade-off would also be consistent with the proposal in the DP that an entity should not recognise an asset or liability if no measure of the asset (or liability) would result in a faithful representation. If the IASB thought that assets and liabilities should not be recognised when they could not be measured reliably because this would not result in relevant information, the IASB could just have referred to relevance as the recognition criterion. By referring to faithful representation in addition to relevance, it seems as if some assets and liabilities could be relevant to recognise – but recognition would not result in reliable information.*

*In order to reflect its decision on the recognition criterion, the IASB should also amend the wording of paragraphs QC15 and QC16. These paragraphs note that 'if the level of uncertainty in an estimate is sufficiently large, that estimate will not be particularly useful'. However, they also state that 'a representation of [an] estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate' and that 'if there is no alternative representation that is more faithful, that estimate may provide the best available information'. Without any clarification, EFRAG does not believe the latter would reflect EFRAG's view and the IASB's suggestion in the DP as noted in paragraph 0 above.*

*In addition to replacing 'faithful representation' with 'reliability' as defined in the pre-2010 Conceptual Framework, EFRAG considers that verifiability should form part of reliability instead of just being*

considered an enhancing qualitative characteristic. In the description of verifiability, the meaning seems weak as it requires only a consensus between different knowledgeable and independent observers, rather than a reasonable level of certainty over the measurement of the financial effects of the item.

EFRAG's view on reliability is further explained in the Bulletin Reliability of financial information issued by EFRAG, ANC, ASCG, OIC and FRC.

### **Prudence**

On prudence, EFRAG agrees with the DP that, although widely accepted as a concept, there are differing views as to what prudence means in practice. In EFRAG's view prudence represents a degree of caution which generally recognises downside risks and not upside potential inherent in uncertain future events.

As such a prudence filter within the Conceptual Framework should operate in setting standards for recognition or measurement – it does not relate to disclosure as the uncertainties/risks can be described at least qualitatively if not quantitatively. For example, when the inflows related to an asset are contingent on an uncertain future event, the filter could prevent this (contingent) asset from being recognised at all on the statement of financial position. However, information about the potential asset could and should be provided in the notes to the financial statements.

Prudence is clearly reflected both in Standards in force today and those being developed. So, for example, the new Standard on revenue recognition requires a customer contract to exist in order to recognise revenue and hence the uplift in inventory above cost; similarly even with a customer contract recognition of variable consideration is limited to the amount which is reasonably assured (rather than, for example, the expected amount). In contrast a potential reduction in inventory below cost is recognised as soon as it is expected. Whilst for financial instruments the measurement criteria are generally more even handed, even then, for example, the treatment of day one profits uses the concept of prudence. EFRAG therefore believes that it is essential to include a clearly articulated concept of prudence in the Conceptual Framework in order to ensure that it is applied consistently across the Standards (both current and future).

EFRAG's view on prudence is further explained in the Bulletin Prudence issued by EFRAG, ANC, ASCG, OIC and FRC.

### **Question 23**

**The business model concept is discussed in paragraphs 9.23–9.34. This DP does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.**

**Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?**

**If you agree, in which areas do you think that the business model concept would be helpful?**

**Should the IASB define 'business model'? Why or why not? If you think that 'business model' should be defined, how would you define it?**

The Danish ASC finds that the business model should be reflected in the FS and Annual Report, and we would like it to be mentioned in the CF as a matter of principle, however we would like the concept and the implications to be further developed before finally deciding whether to support.

EFRAG has developed a first discussion paper, and we would like to study it, and we would also like to see the IASB's thinking on the matter. We are certainly of the view that the concept of business model is not to be used as a Danish lunch buffet, where one may choose the result one wants to have.

### **Question 24**

***The unit of account is discussed in paragraphs 9.35–9.41. The IASB’s preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.***

***Do you agree? Why or why not?***

The Danish ASC believes the unit-of-account issue is of such importance, that it must be covered in the CF, and the CF should give guidance for the board to decide at the standards level.

### **Going Concern**

#### **Question 25**

***Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).***

***Are there any other situations where the going concern assumption might be relevant?***

As earlier mentioned the Danish ASC believes going concern is an accounting concept and there is uncertainty in practice how to understand it and we believe IASB should properly define and describe it in the CF in order to meet the needs of its constituents.

### **Capital maintenance**

#### **Question 26**

***Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.***

***Do you agree? Why or why not? Please explain your reasons.***

The Danish ASC agrees in practice however we would have thought the order of world should be reversed, because the issue should be covered at conceptual level prior to be resolved at the standards level.