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**Re: EFRAG Draft comment letter on IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting***

Dear Françoise,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG comment letter on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.

**GENERAL REMARKS**

We welcome the priority given to this project and the effort to rethink the conceptual basis of the IFRS system. In this respect, the IASB has properly considered the results of the 2011 agenda consultation. We also agree with the will to limit the scope of the Conceptual Framework (CF) to financial statements and to conclude the project in a few years.

In general terms, we find that the Discussion paper (DP) provides a complete picture of the issues to be included in the new CF, but it has to be pointed out that sometimes there is a need a more for conceptual approach. This is, in particular, the case of OCI, which is one of the most important issues to be addressed to improve the overall consistency of IFRS and for which the analysis included in the Discussion paper seems to be wholly inadequate.

Section 8 of the Discussion paper bases the analysis on this topic admitting, as a starting point, that OCI provides useful information to financial statements to the users and then focusing on recycling and on the consequences that would derive from imposing, prohibit or permit recycling.

In this, the DP fails to address two fundamental targets:

- to define clearly the difference between the two notions of performance depicted by Profit or loss and Other comprehensive income;
- to define clearly the characteristics that the items recognized in OCI should have.

We believe that the reasoning should be inverted. The first point to address is the notion of performance and the two different configurations of performance that the income statement should aim to depict. After this preliminary and fundamental analysis, a thorough debate should follow about the features that distinguish the items to be incorporated in P/L and the items to be incorporated in OCI. On this point, we suggest careful consideration of the role that the business model could play in selecting the different categories of income and expense. We also believe that the concepts of realized/unrealized, bridging items and mismatched remeasurements (considered together or on a stand-alone base) could provide very useful inputs in defining the notion of performance identified by OCI.

At this stage, is still impossible to understand the economic meaning that a user could assign to OCI and, given the proposal contained in the Discussion paper, this situation could even worsen in the future after the issue of new standards.

We strongly suggest this issue be addressed during the due process that will lead to the publication of the Exposure Draft of the new CF.

With regard to amending Chapters 1 and 3 of the existing Conceptual Framework, we agree with EFRAG except for the stewardship issue, on which we reiterate the position taken in the bulletin Accountability and objective of financial statements.

## **SECTION 1 INTRODUCTION**

### **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 agree with EFRAG.

## **SECTION 2 ELEMENTS OF FINANCIAL STATEMENTS**

### **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?

We welcome the changes in the proposed definitions as we believe that they are capable of improving the understanding of what an asset is and what a liability is. In particular, we believe that the overall consistency of IFRSs would benefit from the removal of the “expected flows” notion as this term may be intended as being either a recognition threshold, or - even worse - an implicit reference to a measurement attribute. This clarification becomes increasingly important as the use of expected value-based measurement increases in IFRSs. However, we suggest that the IASB clearly defines what is meant by “capable” in the proposed definition.

We highlight that, as proposed in the DP, the definitions of assets and liabilities put a lot more emphasis on the role of recognition and measurement aspects (this is clear when considering how the DP deals with uncertainty). Whether this is a deliberate choice of the IASB or an unintended consequence is not clear. We would suggest the IASB clarify its overall strategy with respect to the definition of assets and liabilities, the recognition and the measurement by explaining the mutual relationships that it aims to establish among them.

We believe that further steps in the consultation process would benefit from a testing exercise where the proposed definitions are checked against a number of items.

With respect to the question “whether ‘to the entity’ should be added to the proposed definition” of an asset, in our view adding “To the entity” would be redundant. This is because, the reference to the notion of control (ie “a resource controlled by the entity”) in the definition of an asset already includes, though implicitly, a reference to the fact that the benefits “should flow to the entity” otherwise there would be no control according to IFRS 10. In fact, the notion of control of an asset in the Conceptual Framework would be somehow inconsistent with the definition of control under IFRS 10 as we believe that one could hardly conclude that an entity has control over a resource which it is not capable benefiting from.

### **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 the Conceptual Framework should not provide any probability thresholds at the level of the asset and liability definition. We agree that probability thresholds should be provided at the level of the recognition criteria and therefore they should not be included as part of these basic definitions.

The distinction between outcome and existence uncertainty is theoretically doable for the following reasons:

(i) outcome uncertainty should be treated as part of the recognition and/or measurement criterion provided for in each standard; and

(ii) conceptually, existence uncertainty is a basic condition for recognition.

We favour the approach taken in the DP to focus in the definitions on the mere capability of an economic resource to generate economic benefits, thus setting a very low threshold to identify an asset, that is difficult not to meet.

We suggest careful reconsideration of the statement in par. 2.35 (c) of the DP that: the reference to probability should be deleted from the recognition criteria. Including a probability threshold would lead to a failure to recognise some items (for example, options) that are undoubtedly assets or liabilities but are judged, at a particular time, to have a low probability of resulting in an inflow or outflow of economic benefits. Furthermore, some such items may swing above and below the threshold as the probabilities change. In the IASB's preliminary view, uncertainty about the ultimate inflow or outflow should not, by itself, determine whether an entity recognises an asset or a liability, though it may affect its measurement.

Regarding recognition thresholds, we note that in some cases, capturing uncertainty directly at the measurement level, without setting any probability thresholds at the recognition level, might be more appropriate in some circumstances. This is the case, for example, of derivatives and in general where the transfer of uncertainty is a significant part of the contractual obligations assumed by an entity.

Apart from the example of derivatives and similar contracts, we believe that the Conceptual Framework should set a general criterion that liabilities are recognised if and only if they pass a certain probability check.

Furthermore, although we intuitively understand the argument that existence uncertainty would be rare as a result of the “capability to produce economic benefits” concept introduced in the definitions, we would suggest that examples be provided to show that existence uncertainty is rare as stated in the DP.

#### **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?

At present, the Conceptual Framework seems to favour a “balance sheet view” over an “income statement view”. We believe that this is reflected in the definition of income and expenses as mere changes in assets and liabilities as provided in the existing Framework. We acknowledge that the deliberate choice of either view largely depends on the accounting tradition one belongs to.

However, we note that under a “pure” balance sheet view, the statement of OCI has little rationale as, under this view, the definition of income and expenses does not traditionally encompass recycling adjustments relating to OCI. Thus, we suggest that the Conceptual Framework clarifies that income and expense shall include any recycling adjustments relating to OCI.

Furthermore, we would suggest clarification of what the IASB means by contributions to/from equity participants. For example, at present, it is not clear whether intercompany transactions for entities under common control give rise to costs and revenues or distributions to/from equity participants.

### **SECTION 3 ADDITIONAL GUIDANCE TO SUPPORT THE ASSET AND LIABILITY DEFINITIONS**

#### **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 agree with the overall approach taken in the DP to address the issues relating to the interpretation of the circumstances in which a constructive obligation exists and gives rise to a liability.

We agree that a constructive obligation may exist only where another party that is external to the entity is involved (ie would either benefit or suffer a lower cost from the entity's fulfilment of the obligation).

We believe that this general criterion also applies to those circumstances in which an entity may no longer be a going concern. In fact, an entity's management would always operate under the going concern assumption and therefore it would avoid either liquidating or curtailing materially the scale of the entity's operations.

In this respect, under specific circumstances, an entity may publicly announce that it will perform a set of actions which it deems to be necessary in order to ensure that it is a going concern. Such an announcement implicitly favours those parties which could bear a cost were the entity to be liquidated.

We believe that the notion of constructive obligations in the conceptual framework should include such examples.

#### **Question 6**

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. 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 believe that a present obligation should be defined with reference to future events whose occurrence is substantially certain. In this respect, we find the proposed view 2 more appealing than the other two views for the following reasons:

- the fact that an obligation is practically unconditional implies that in principle it may provide relevant information, it does not imply that it will necessarily result in a recognised amount, this will depend on the specific recognition and measurement requirements of the individual standard;
- view 2 provides a reasonable level of reassurance that not all potential future obligations depending on an entity's actions are candidates for recognition and measurement, but only those whose occurrence is deemed to be practically unconditional. On the other hand, this approach prevents obligations from being recognised too late; and
- in order to identify whether the “practical un-conditionality” exists, view 2 indicates that the entity should take into account the amount of benefits received and the activities performed. This is an approach that combines a good mix of flexibility (that is in line with a principle-based approach), but still a good degree of adherence to the economic reality.

With respect to the latter point, we warmly suggest that the IASB provides adequate application guidance to clarify how an entity should implement the reference to the benefits received or the activities conducted (as stated in par. 3.66 of the DP). In particular, at this stage, it is not clear how an entity should interpret this reference, whether it is meant to indicate a driving parameter for measurement or whether it is a mere indication to assess the existence of an obligation, but which does not necessarily affect recognition and measurement.

Furthermore, the distinction between constructive obligations and economic compulsion seems to be relevant also to define the notion of “practical un-conditionality”. We would suggest that the IASB further explore how these two notions could be made mutually consistent.

#### **Question 7**

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

We agree with the proposed additional guidance on the other definitions in the DP. In particular, we commend the description that the IASB has proposed in the DP on to how to report for the substance of rights and obligations which, we believe, better expresses the concept of “substance over form” than in the previous versions of the Framework.

Also, we welcome the IASB’s effort in trying to create a certain degree of consistency between the control notion for the purpose of the framework’s definitions and the control notion that is provided for in IFRS 10. In fact, we note that both notions focus on the benefits as a key aspect.

However, we would suggest that the IASB, as with other definition changes, tests the proposed changes in the control notion to assess the impact in current practice of the proposed changes.

With respect to the role of economic compulsion in the assessment of the economic substance of a contractual arrangement, we believe that the IASB should set out in the Conceptual Framework at least a general principle based on which individual standards will consider the relationship between economic compulsion and each specific transaction. In particular, we would suggest considering the use of the notion of “practical un-conditionality” developed when discussing the role of future events in defining a present obligation, also for the purpose of considering economic compulsion within a contractual arrangement to distinguish between equity and liabilities. In fact, we believe that the internal consistency of IFRSs would benefit from the use of a single notion to indicate the same concept (ie “practical un-conditionality” and “commercial substance”).

We suggest that the IASB carefully treats executory contracts as by stating that executory contracts are not recognised, unless onerous, because “the rights of one party have the same value as the obligations of the other party” (par. 3.110 (b)) makes sense from a “buyer’s perspective”, but it is not relevant for the “seller”. In fact, from the seller’s perspective, the consideration received normally has a higher value than the obligations assumed, otherwise the contract would be onerous.

## **SECTION 4 RECOGNITION AND DERECOGNITION**

### **Question 8**

Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB’s preliminary view, an entity should recognize 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) recognizing 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?

We agree with the DP that relevance and faithful representation should be considered when deciding on recognition of assets and liabilities. More in particular, we believe that the CF should include explicit probability thresholds, considering the fact that the recognition of items does not produce automatically relevant and reliable information for users.

In addition, should the IASB retain the recognition threshold, it would enhance consistency amongst Standards. This is supported also by the fact that the role of the CF is also to provide guidance for preparers and auditors when issues are not dealt with by a Specific Standard.

we also agree with the following IASB's preliminary view:

- the cost constraint concept should continue to be applied;
- additional guidance could suggest some indicators that help in order to identify when the recognition does not result in relevant information;
- to provide relevant information to users of financial statements, the IASB may need to require disclosure about unrecognized assets or unrecognized liabilities, including the reasons that led to the fact that recognition is not appropriate in such circumstances for some assets/liabilities.

### 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?

Generally, we agree with the proposals included in the DP. However, we think that the IASB should provide guidance about the difference between a modification/change of an asset/liability and derecognition of an asset/liability, including the case when derecognition (under a full or a partial derecognition approach) produces a (new) recognition of another asset.

We agree with the DP that in most cases an asset/liability should be derecognized when it no longer meets the recognition criteria, or is no longer an asset or a liability of the entity.

## **SECTION 5 DEFINITION OF EQUITY AND DISTINCTION BETWEEN LIABILITY AND EQUITY ELEMENTS**

### **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. 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 3.98(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) recognize 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?

We agree with EFRAG's position.

## SECTION 6 MEASUREMENT

### 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. 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?

We agree with IASB's preliminary views expressed under Question 11. However, we believe that the business model should also play an important role in selecting the appropriate measurement basis, and therefore help implementing the proposed principles in a reliable manner.

In addition, referring to the EFRAG DCL, we do not understand why, if the IASB should limit the number of different measures used to the smallest number necessary to provide relevant

information, it could conflict with the objective of financial reporting. In fact, we believe that limiting the measurement basis could help in avoiding unnecessary complexity.

### **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. 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 support.

We agree with IASB's preliminary views summarized in question 12. More in particular, we agree with the IASB's classification assets into four categories (as set out in the DP). More in particular:

- for using assets we generally agree with the view that cost-based measures would provide relevant information. So, we think that changes in an asset's capacity to generate cash flow through time can be effectively and better, than a current measure, reflected through cost-based adjustments (such as depreciation/amortization expense, impairment losses and reversal of impairment losses);
- for selling assets, we believe that the IASB should consider that there are different situations in which assets are being sold. For example, if an entity holds an asset in order to sell it in the near future, generating a profit from changes in a market price, the fair value measurement would be relevant in order to predict future inflows for the entity. However, the fair value (i.e. current exit price) is available when liquid markets exist, so when a current market price is not available, it may be necessary to estimate this. On this point, we think that the IASB should require that the estimates should be relevant and understandable for the users. So, we think that the IASB should consider both the asset's capacity to generate cash flow and the reliability of the estimates.
- For financial holding assets for collection according to terms, we think that the cost-based measurement provides relevant information for the users. However, for derivative instruments,

that have a significant variability in either cash flows or net value flows, we think that the fair value is the better measurement.

In addition, we think that, in order to address the issue about the uncertainty related to the fact that the way in which an asset will ultimately contribute to cash flow may change, the IASB should develop the approach that provides more than one measure of the asset.

### **Question 13**

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

We generally agree with the IASB's preliminary views expressed under question 13. More in particular:

- for liabilities without stated terms, we believe that a cash flow based measurement could produce useful information in order to estimate a current value or cost. However, we note that the IASB should better develop the proposal about the cash flow based measurement for liabilities without stated terms, because, currently, the DP does not permit the effect of that proposal to be assessed;
- for liabilities with stated terms but highly uncertain amount, we think that a cash-flow based measurement provides the most relevant information, particularly when the current market price is not available or difficult to determine;
- for liabilities with stated terms that are settled by cash or by delivering other assets according to the terms, we think that a cost based measurement should be appropriate because it would reflect future outflows from an entity. However, for liabilities that are derivatives, we believe that they should be measured at a current market price or with a measure that varies according to the cash flows required by the contract.
- For liabilities with stated terms that will be settled by being transferred to a third party without negotiating for consent of the creditor, we believe that the current market price or current market price plus transaction cost should be a relevant measure, but the IASB

should also consider that there may be the possibility that sometimes the current market price is not available. In these cases, the IASB should require another measurement criterion the future outflows required by the contract.

- For liabilities with stated terms that are settled by performing a service or paying others to perform services, we believe that the appropriate measurement basis should depend on whether the entity performs the services or the entity pays others to perform services.
  - In the first case, we believe that a cost based measurement is appropriate, however, in the second case we believe that the measurement should take into account the fact that the entity could choose the party that performs the service. So, probably, *ceteris paribus*, the entity will choose the party that performs the service at the lowest cost. In this case, the current market price of the services may be more relevant information for users.

#### **Question 14**

Paragraph 6.19 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 (ie the asset or the liability is highly leveraged).

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

We agree with IASB's preliminary view summarized under question 14. More in particular and as said above, we agree that current market prices are likely to be the most relevant measure for assessing prospects for future cash flows of derivative instruments.

#### **Question 15**

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

## SECTION 7 PRESENTATION AND DISCLOSURE

### 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.*

Generally, we agree with the proposal, however we think that more guidance is needed for some areas. More in particular, it seems that the DP is too generic and will not be able to innovate the IASB's process of deciding on disclosure requirement at a standard level. On this point, we believe that the IASB should refer to the ANC-EFRAG-FRC DP "Towards a disclosure Framework for the notes".

Moreover, we think that, under these proposals, the objective to address the requests of the respondents of the Agenda Consultation 2011 cannot be satisfied.

### 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?*

We think that more general guidance on materiality could be included in the CF in order to better clarify when an entity has to give disclosure about items. However, we think that additional material on the application of the materiality could not be provided by educational material. In this circumstance, the risk that the educational material replaces the standard is too high. So, we believe that the IASB should provide additional material on the application of the materiality only by amending standards.

### 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 of the DP.*

*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?*

We agree that communication principles should be part of the CF and agree with the principle suggested.



## **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? 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?

See the general remarks.

### **Question 20**

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

Do you agree? 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?

See the general remarks.

### **Question 21**

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

Which of these approaches do you support, and why?

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

See the general remarks.

## **SECTION 9 OTHER ISSUES**

### **Question 22**

Chapters 1 and 3 of the existing Conceptual Framework

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.

We have already expressed our views regarding the concept of stewardship, reliability and prudence in the related Bulletins issued jointly with EFRAG and the National Standard Setters from Germany, France and the UK which we recommend you refer to.

### **Question 23**

Business model

The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper 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?

Notwithstanding the considerations already developed in the Bulletin issued jointly with EFRAG and the standard-setters from France, Germany, Italy and the UK regarding the business model, we consider that the business model is a key concept in IFRSs both for preparers when they communicate with their stakeholders and for the IASB itself when it develops or revises a standard. The importance of the business model concept, in our view, lies in its ability to combine a principle-based approach with a fair adherence of accounting to the reality of business activities.

The business model concept is logically linked to all areas of accounting. If accounting tries to represent the business reality, then it does so through the recognition, measurement, presentation and disclosures of the result of business operations during the reporting period.

Due to its key role in the overall accounting standard setting process, we believe that a clear description of the business model in the Conceptual Framework would help to reduce the inconsistencies in the way this concept may be used across IFRSs. Furthermore, a definition of the business model is welcome as, at present, IFRSs define what the business model is not, but they omit any indication of what it means exactly.

To identify the most appropriate definition of this concept, the IASB could leverage on the most recent developments of the academic research which has been trying to define this concept in a variety of ways.

Finally, we believe that not only should the Conceptual Framework define the business model concept, but it should also indicate how it affects the different parts of the overall accounting process (recognition, measurement, presentation, disclosure).

**Question 24**

Unit of account

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?

We agree that the unit of account should be dealt with at the level of each individual standard. At the same time, we would like to stress the importance of a business model definition in IFRSs as based on this definition, each standard could more easily set a unit of account that is consistent with the way business activities are conducted.

**Question 25**

Going concern

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?

We agree with the identification of the relevant areas where the going concern assumption should be included in the Conceptual Framework provided in the DP.

It is important, in our view, that the revised Conceptual Framework clarifies the link that exists between economic compulsion and the going concern assumption and how this may affect the definition of a constructive obligation. For example, the Conceptual Framework should clearly indicate whether the management should always be meant to act to verify the going concern assumption and that in light of this assumption, it would be possible to even “predict” that the entity would bear a certain cost in the future to avoid the possibility of default and that, therefore, this prediction could give rise to the existence of a liability today.

**Question 26**

Capital maintenance

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.

We agree with the deferral of the IASB’s work on capital maintenance until it deals with inflation accounting.

Yours sincerely,

Angelo Casò  
(Chairman)