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Mr Hans Hoogervorst, Chairman
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30 Cannon Street
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Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (July 2013).

Principal authors of this comment letter were Otto Altenburger, Max Eibensteiner, Klemens Eiter, Leopold Fischl, Christian Gross, Christian Höllerschmid, Erich Kandler, Christoph Krischanitz, Gerhard Prachner, and Alfred Wagenhofer. The professional background of these authors is diverse – three academics, an actuary, four auditors and two preparers.

GENERAL REMARKS

We congratulate the IASB on this Discussion Paper (DP) on a Conceptual Framework (CF). It is a thoughtful piece that attempts to provide a conceptual basis for many fundamental issues that are currently discussed on level of the individual standards. We believe that the DP is a major step towards the goal of a better theoretical foundation for the IFRSs. But we do have some concerns, some general and others more specific.

Apart from discussion of specific content-related issues, we note that the IASB has excluded implementation issues from discussion in the DP. The DP is also silent on potential organisational questions, e.g., the frequency of CF changes in the future. We hope that the CF will establish a relatively stable basis for future standard setting and reporting, though we accept that it can never be entirely static.

SPECIFIC REMARKS

1. INTRODUCTION

Q 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 these preliminary views.

The main purpose of a CF is to provide a foundation for the IASB's efforts in developing new standards and revising existing standards (and interpretations).

We support the IASB's decision not to constrain itself to follow the CF slavishly. Such a restriction would have no point, since the CF and the standards are developed by the same institution (the IASB), and any deviation from the CF in a standard could easily be accompanied by a matching amendment to the CF.

In the past, CFs were developed at a particular time and then left unchanged for a long time. Meanwhile, the economic environment and the needs of preparers and users in some cases changed. The IASB's freedom to issue standards that conflict with the CF is necessary to provide sufficient flexibility in addressing current issues. To avoid unnecessary delays in standard setting, it is important that the IASB not be required to amend the CF before it can change standards.

We prefer a CF consisting of substantial principles that can where necessary be breached to a CF that simply discusses the pros and cons of different approaches – the latter is less authoritative and provides more limited guidance, and this is a high price to pay for the avoidance of conflict with individual standards.

We agree that the IASB should describe and explain the source of and reason for inconsistencies between the CF and revised or newly developed standards. We expect that such deliberate conflicts will be rare events. The requirement to explain any conflict ensures transparency and enhances the authority of the CF.

In addition, we suggest reviewing the requirements in IAS 8 that refer to the CF for the interpretation of IFRSs. In this regard, we do not understand why the IASB proposes to limit the applicability of some CF sections, as outlined in paragraph 1.29. This does not seem to be consistent with the basic approach that the framework is to be used by the IASB when developing accounting standards.

2. ELEMENTS OF FINANCIAL STATEMENTS

Q 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 support the IASB‘s aim of establishing robust definitions of assets and liabilities, as they are the basic elements of financial accounting, and the revised definitions will be easier to understand than the ones currently in place. The revised definitions are, however, likely to lead to a broadening of the categories, and – given the recognition criteria – more resources might be recognised than under the current definitions (see also our response to Q 8), for example, the entity‘s workforce or an improved market position. It remains questionable whether such items should be included in an entity‘s statement of financial position.

We approve of the elimination of references to uncertainty in the definitions, but we think that by introducing the term ‘capable’ the Board has only replaced one judgemental approach with another, and one that is, arguably, even more susceptible to individual interpretation. The old term, ‘probable’, could at least in theory be supported by mathematical procedures. We see the term ‘capable’ as much less restrictive, and think that unless restrictions are imposed this may lead to previously unrecognised items being recognised as assets (e.g., the entire workforce of an entity). An item might in principle be capable of generating economic benefits, but only in a specific economic, political, or social environment, which may not obtain for a given reporting entity. The IASB should make clear that for the purposes of the CF the term ‘capable’ should always be assessed from the point of view of the specific entity. Accordingly, we propose the following formulation:

> ‘an economic resource is a right, or other source of value, that is capable of

producing economic benefits for the reporting entity.'

Another potential issue is the treatment of contingent liabilities under the new approach. Basically, such obligations (e.g., loan guarantees) qualify as liabilities because if the contingency materialises the liability must be met. One might argue that at the balance sheet date there is no present obligation, as the payment is contingent on the future action of a third party. However, this argument could apply to inventories as well, since realisation of a benefit depends on whether a customer willing to buy the inventory will be found. A similar example would be stand ready obligations, such as warranties.

Q 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 agree with the proposals in parts (a) and (b) of Q 3 to eliminate the term 'expected' for the inflow and outflow of economic benefits and the probability criterion for recognition. However, as far as recognition is concerned, the Board should make sure that eliminating the probability threshold does not automatically mean that any item can be incorporated in the statement of financial position – there must be qualitative criteria to be met. We draw the Board's attention to our answers to Q 8, which deal with this topic in more detail.

Relying exclusively on the capability test embedded in the definition of assets and liabilities could result in general purpose financial statements that do not meet the qualitative requirements. In particular, the requirement for financial information to be free from error (part of the key requirement of faithful presentation) and verifiable might easily be violated. Although freedom from error as outlined in QC15 of the existing CF does not require absolute mathematical accuracy, it at least requires the selection of a computation process with no errors. In the case of a mathematical approach (and probability is such an approach) such a process can be checked more or less objectively. But it remains questionable whether a process that aims at assessing an item's capability of generating economic benefits is similarly objective. Under specific circumstances the capability might be given,

while under others it might not. Such a process is likely to be overly based on pure judgement, so that it could be difficult even to reach the beginning of the calculation process in an objective manner. Verifiability is questionable too, since all that can be established is that company X deems an item Y to be capable of producing outcome Z – which is arguably inadequate for general purpose financial statements.

There could be a positive impact on comparability which in the current CF requires that 'like things should look alike'. Eliminating a probability threshold (which currently might lead to recognition of elements in one entity and to non-recognition of the same items in another one) will enhance this qualitative characteristic. This could come, however, at the expense of other arguably more important features.

Q 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?

We support the definition of income and expenses on the basis of changes in assets and liabilities. We also support the proposal to distinguish contributions to equity, distributions of equity and transfers between classes of equity, which may also help in the discussion of the differentiation of equities and liabilities. However, we do not support the definition of cash receipts and cash payments. They should be considered in a separate standard dealing with the statement of cash flows, because their relevance is limited to this cash flow statement.

We believe that no primary financial statement should have primacy over the other primary statements, i.e., the statement of financial position should not have primacy over the statement of comprehensive income.

3. ADDITIONAL GUIDANCE TO SUPPORT THE ASSET AND LIABILITY DEFINITIONS

Q 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 retention of the current definition of a liability as encompassing both legal

and constructive obligations. However, we think that constructive obligations should be defined more broadly than currently proposed in the DP.

We also agree with the arguments in the DP that excluding some constructive obligations could provide less relevant information to users of financial statements about the entity's future cash flows relating to past activities. In addition, we consider that excluding some constructive obligations would not result in faithful representation.

However, we do not agree with the IASB on how to deal with constructive obligations. We agree that a constructive obligation exists in cases where the criteria in paragraph 3.50 of the DP are met, which would cover current restructuring obligations under IAS 37. The guidance in paragraph 3.50 must be clear on how to distinguish constructive obligations from cases of economic compulsion. Economic compulsion could lead to the recognition of a liability because the entity has no realistic alternatives. It must be clear from the guidance in the CF (or the relevant standard, if this issue is deemed too specific to be dealt with in the CF) whether a liability is to be recognised in such cases or not.

We are highly concerned with the result of the IASB attempting to define assets and liabilities symmetrically (see, e.g., paragraph 3.34). If there are constructive obligations – and they should even be broadened beyond current practice – then the symmetry suggests that there should also be 'constructive assets' as a counterpart to constructive obligations. We do not believe that such a consequence is desirable and suggest that the IASB makes clear that it does not follow such an approach.

Q 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 find the examples in this section useful to the discussion of differences between the different views. For the distinction between View 2 and View 3 and the potential application of View 2, adequate distinguishing criteria, more examples than currently included in the DP and additional guidance would be useful.

We tend to prefer View 2, but believe that 'practically unconditional' (View 2) is too close to 'strictly unconditional' (View 1). An entity may not have a reasonable ability to avoid the resource transfer – this definition would be better than referring to the disruption of the business. Additional guidance should be given to illustrate the definition. View 1 is too restrictive and is likely to identify liabilities too late. On the other hand, we think that View 3 would result in too many circumstances in which a liability would arise.

With respect to the levy examples we are not sure they capture the essence of the different views. For the levy examples we favour the current view of the IASB that also underlies IFRIC 21. We believe that the obligating event in these examples is an activity in a particular year, so the existence of a liability should not be based on a measurement rule in the levy regulation, but on the fact that an entity operates in a particular year. The result would be in line with View 1, but for a more consistent reason.

Q 7 Do you have comments on any of the other guidance proposed in this section to support the asset and liability definitions?

We welcome the additional guidance, especially the guidance provided for executory contracts and other forward contracts. The guidance should, however, be limited to principles widely applicable (unlike those for financial instruments with 'dividend blocker' covenants or similar agreements). The definition of the notion of 'control' should be carefully checked to avoid divergences from current practice, if these are not actually intended.

4. RECOGNITION AND DERECOGNITION

Q 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?

Elimination of probability thresholds not only in the definition but also in the recognition criteria leads to an extremely extensive recognition of assets and liabilities. To achieve the fundamental characteristic of decision usefulness, it is necessary to complement these broad definitions by additional principles that give guidance on when to recognise an asset or liability. In this regard, we agree in general with the suggested principles as stated in the DP. However, we find it hard to come up with examples for the first part of paragraph 4.25(a) such that recognition of an asset or liability would not provide users with relevant information. We believe all information about transactions or events is capable of being relevant. Therefore, we suggest deleting this first part of paragraph 4.25 (a) and only referring to the trade-off between relevance and cost.

We also recommend including this trade-off between relevance and cost and the restriction in paragraph 4.25 (b) as basic elements of the CF. Implementing the Board's proposal as it stands risks encouraging case-based applications, thus contradicting the principles-based approach to developing IFRSs.

We note that because the suggested definitions and principles for the recognition of assets and liabilities are broad, they are likely to lead to diversity in practice as a result of the high degree of judgement required. Hence, it is important that the IASB refines these criteria and develops standards using these principles.

Q 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?

We agree with the DP that, following the control approach, in most cases an asset or a

liability should be derecognised when it no longer meets the recognition criteria, no longer exists, or is no longer an asset or a liability of the entity. In particular, if the IASB follows a symmetrical approach for assets and liabilities strictly, then a derecognition decision should be – subject to the paragraph below – matched by a recognition decision by another entity.

However, there may be cases where an asymmetric approach may result in more useful information. If the entity retains a component of an asset or a liability, risk and rewards and the unit of account may need to be taken into account to achieve the aim of representing faithfully both

(a) the resources and obligations remaining after the transaction; and

(b) the changes in the resources and obligations as a result of the transaction.

Therefore – depending on the unit of account and preference of the risk and rewards approach versus control under specific facts and circumstances – decision usefulness may be best achieved by full, partial, or no derecognition. Hence, we generally agree with the possible approaches outlined in the DP. However, we feel that objectives, principles and different approaches to when and how derecognition should occur should be included at the CF level. In particular, we note that the absence of the stewardship/accountability objective in the CF (see also our answer to Q 22) restricts the scope of this part of the DP.

5. DEFINITION OF EQUITY AND DISTINCTION BETWEEN LIABILITIES AND EQUITY INSTRUMENTS

Q 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 3.89(a)).

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?

The IASB proposes to retain the existing definition of equity as the residual interest in the assets of the reporting entity after deducting all of its liabilities. We agree with the IASB that this generally accepted negative definition of equity should be retained, although this entails that any book-equity based measure of the reporting entity's value is conceptually flawed (e.g., the price/book ratio). This is a consequence of the mixed attribute measurement model, the non-recognition of certain assets and liabilities, and synergies resulting from their use. Thus, the book value of equity is not expected to depict the value of the reporting entity.

We note that the discussion in section 5 relies heavily on the classifications in IAS 32 and IFRS 2. We regret the absence of a more fundamental analysis of alternative options for the classification of equity and liabilities and suggest that the alternatives be considered in more detail (than those briefly addressed in the paragraphs following paragraph 5.45 of the DP).

Determining equity as a residual means that it is not remeasured and that there is a guiding principle (e.g. the existence of an obligation to deliver economic resources to third parties) that distinguishes equity from liabilities. One could argue whether it is not more useful to define equity positively on the basis of ownership interests, and thus in practice make assets or liabilities the residual, e.g. via market price adjustments. Such an approach – while preserving balance sheet identity – would have the merit of providing a conceptual basis for solving classification problems concerning certain 'equity claims', e.g., puttable shares, non-controlling interests, derivatives based on own equity, or instruments that require an entity to distribute an amount based on the reporting entity's performance. However, we think that preferring a clear-cut definition of liabilities and assets and defining equity as a residual is more consistent with existing IFRSs, is more intuitive, depicts a reporting entity's leverage more consistently, and is more understandable. We also support the idea of excluding obligations that arise only upon liquidation of the reporting entity from the definition of a liability – as long as an entity is a going concern, there is no contractual or other commitment to liquidation. We are aware of the fact that such an approach causes problems with some basic ownership instruments (e.g., shares in cooperatives or partnerships). Appropriate guidance ought to be developed for such basic ownership instruments, e.g. by building on the concept introduced by IFRIC 2. The fundamental question is whether such guidance

should be established in the CF or at the standards level. Establishing it in the CF may come at the cost of conceptually blurring the bright line between equity and liabilities. Retaining the current approach but providing for exceptional cases at the standards level may affect the CF's status as the cornerstone of individual IFRSs.

The IASB proposes to distinguish between primary and secondary equity claims. Primary equity claims are those that represent a right to participate in distributions of equity during the life of the reporting entity or upon liquidation. Secondary equity claims represent a right or a present obligation to receive or deliver another equity claim. There is no conceptual guidance in existing IFRSs on secondary equity claims. We agree with the classification of all secondary equity claims as equity although they represent potential ownership interests rather than currently existing ones.

We believe that the concept of wealth transfers is not fully developed yet. The idea of remeasuring equity claims without changing total equity means that at least one type of equity claim cannot be remeasured, making it a balancing item more residual than the other types. That introduces a subdivision into equity, making the primary equity claims the real residuals. Moreover, wealth transfers resulting from the remeasurement of secondary equity claims may conflict with the subdivision of equity into categories on the basis of, e.g., legal requirements. These wealth transfers that represent some but not all potentially dilutive effects on the holders of equity instruments may indirectly affect the book values of classic categories of equity such as share capital or capital reserves. This is not only counter-intuitive, but also hard for the users of financial statements to understand. It must also be noted that, under existing IFRSs, dilutive effects may also be caused by liabilities. With the liability definition unchanged, these wealth transfers would not be presented equally prominently. The concept of wealth transfers may only become useful if these transfers are presented not only in the statement of changes in equity but also in the statement of comprehensive income. This, however, would require rethinking the definitions of income and expense and developing a conceptual definition of OCI.

6. MEASUREMENT

Q 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?

Broadly speaking, we support the IASB's approach to measurement. We also believe that the objective of measurement is to contribute to the faithful representation of the resources of the reporting entity, claims against the reporting entity and changes in resources and claims, and how efficiently and effectively the reporting entity's management and governing board have discharged their responsibilities to use the reporting entity's resources. These objectives cannot be achieved by employing a single measurement basis for all assets and liabilities. If a pure fair-value-based measure is employed, book value of equity will approximate fair value of recognised assets and liabilities (but not firm value), earnings will proxy economic income, and volatility in earnings will be informative for value at risk. However, earnings will not forecast future earnings, as unexpected earnings arise as a result of value shocks, while information on performance of arbitraging prices in input (supplier) markets and output (customer) markets will be lost. If a pure historical-cost-based measure is employed, earnings will measure the reporting entity's performance in arbitraging prices, earnings will allow earnings forecasts, and volatility in earnings will reflect trading shocks in input (supplier) markets and output (customer) markets. However, the price/book ratio will deviate conceptually from unity and a 'valuation' will not thus be directly provided. Research confirms that fair-value-based measures are more appropriate where the value to shareholders is in practice determined solely by an exposure of the asset or liability to

market prices (one-to-one condition). Historical-cost-based measures are more appropriate where the reporting entity arbitrages prices, i.e., where it adds value (for shareholders) by buying at input market prices and selling at output market prices. As a consequence, business model considerations play an important role in determining the appropriate measurement basis. For these reasons, we continue to support a mixed measurement model.

We also support the view that, when selecting the appropriate measure for a particular item, the information that is produced in both the statement of financial position and the statements of profit or loss and OCI must be considered.

We suggest including a principle that requires facts and circumstances applied for recognition not to be used for measurement purposes and vice-versa, to avoid redundancies. For example, the proposed asset and liability definitions and the recognition principles do not refer to probabilities of future cash flows; hence, the probabilities should be included in the measurement of the assets and liabilities once recognised. While this is conceptually the case for fair value measurement, it is not fully clear how it would apply to cost-based measurement.

We agree with considering the business model (i.e., how the asset contributes to future cash flows and, for a particular liability, how the reporting entity will settle or otherwise fulfil that liability) for measurement purposes. However, we believe that the selection of a measure should also take into account faithful representation concerns with measures that depend on expected future cash flows, such as level-3 fair values, and should be applied consistently both over time for the reporting entity and within a specific industry.

We fully agree with limiting the number of measurements and acknowledging cost constraints. This means, though, that there is a need to develop a concept of how to measure the benefits of financial statements to users.

Q 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 the IASB's preliminary views expressed under Q 12.

Q 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 you would support.

We agree with the IASB's preliminary views expressed under Q 13.

Q 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?

As stated in our answer to Q 12, measurement should be based on future cash flows and if they are not verifiable, measurement should be based on historical cost in an appropriate and consistent way.

Q 15 Do you have any further comments on the discussion of measurement in this section?

We have no further comments.

7. PRESENTATION AND DISCLOSURE

Q 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), 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.

We basically agree with the preliminary view on the scope and content of presentation and disclosure. In particular, we agree with the scope of the notes to the financial statements.

However, we believe the guidance in this section of the DP is too abstract and therefore not particularly useful in guiding the setting of disclosure requirements in individual standards. The guidance seems appropriate for a general presentation or disclosure standard (as currently in IAS 1), but insufficient for disclosures in specific standards, which appear to vary considerably in their scope and detail. We believe such principles are important to achieve consistent disclosure requirements in the standards. Such principles could be more specific than the general principles provided in the DP, e.g., relating the qualitative characteristics of the CF to requirements for disclosures in individual standards.

Additional comments:

- Users and users' knowledge are not discussed in the DP. By providing a general assessment of what reporting entities can expect from users, FASB representatives followed a different approach in their comparable DP of 2012. They used this assessment as guidance for distinguishing relevant from irrelevant information. As user knowledge seems to be important to setting the scope of the CF, this aspect could be dealt with in more detail.

- We feel that the distinction made between primary financial statements and the notes is not as straightforward as suggested in paragraph 7.14. While the statement of cash flows and the statement of changes in equity are part of the primary financial statements, segment disclosures, for example are part of the notes, and hence not part of the primary financial statements. However, from a conceptual point of view, the statement of changes in equity could very well be seen as giving additional useful information about equity, while segment disclosure could also be seen as uniquely conveying summarised information about an entity. Similarly, the notes contain decision useful information about equity positions: in some cases, the aggregate information displayed in the statement of changes in equity can be less useful than

disclosures in the notes, particularly when point estimates are associated with considerable risk. In such cases, the description in the notes can be more important than the fair value estimates. These two examples illustrate that the distinction between primary financial statements and the notes is somewhat arbitrary, particularly from a decision usefulness point of view.

- In accordance with paragraph 7.19, we think that offsetting is seldom more useful than a separate presentation of items, as risks are hardly ever equal.

- Paragraph 7.35(a)(ii) differs from paragraph 7.18(c) in referring to the governing board in addition to the entity's management. We recommend using the same language.

- Paragraph 7.36 states that users should be able to identify the key drivers of the position and performance. It is not clear how they can do this and what information they should use to do so. Alternatively, one might consider requiring entities to directly disclose information about key drivers in the notes and not just in the management commentary (as suggested in paragraph 7.37).

Finally, we note that the sheer quantity of disclosures required in IFRS can lead to information overflow that potentially limits the decision usefulness of financial reports. An example for a standard that relies heavily on disclosures is IFRS 2. Furthermore, many of the recently published standards, e.g., IFRS 13, require extensive disclosures. We observe a tendency towards:

- potentially irrelevant disclosures being included in the notes,

- compliance rather than materiality dominating entities' disclosure decisions (which is evident from the frequent application of disclosure checklists), and

- relevant information being harder for users to identify, because it is reported together with other, potentially distracting, information.

We suggest including principles that would help to reduce disclosures in existing standards and to limit disclosures in newly developed standards.

Q 17 Paragraph 7.45 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 agree with the preliminary view that materiality is well defined and the CF should not develop different notions of materiality for presentation or disclosure. We also agree that

additional guidance on using materiality is useful.

Paragraph 7.46 lists four points. We suggest adding the following point:

> '– disclosure of the fact that the entity does not have an asset or liability or that it did not enter into particular transactions may be material to understanding the entity's position and performance, particularly if the users expect the entity to have such assets or liabilities or to have entered into particular transactions.'

An example from IFRS 8 illustrates this point: from disclosures under IFRS 8.34, for example, it is often not clear whether an entity has/had major customers, or whether there are important customers but they are below the 10% benchmark. In this case, non-disclosure cannot be interpreted unambiguously. Alternatively, the CF could state that individual IFRSs may contain minimum disclosures that must be fulfilled even if they do not apply to an entity (in which case the entity does state so), and other disclosures that are subject to judgment of materiality. Such disclosure requirements could, for example, be useful for related party transactions.

Q 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?

In general, we agree with these disclosure requirements.

A suggestion for an additional communication principle is to require entities to highlight particularly important entity-specific information (as judged by management) at the beginning of the notes. The number of these highlighted items should be limited.

Another communication principle for disclosures could be based on sensitivity and scenario ('what if') analyses in cases where considerable risks are involved. If, e.g., fair value estimates with level-3 inputs are based on crucial assumptions, sensitivity analyses are useful to put the assumptions to test.

8. PRESENTATION IN THE STATEMENT OF COMPREHENSIVE INCOME—PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Q 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 amending Standards?

We agree with the preliminary view that profit or loss should be reported separately. However, it is difficult to assess the persuasiveness of the arguments listed in paragraphs 8.20 and 8.21 until it is clear what items the OCI will comprise. If this discussion is based on current IFRSs, then the DP should say so. If the CF is meant to provide a conceptual basis for presentation of income, then it should first develop principles that determine why OCI is useful as a separate subtotal of net income. Equipped with such arguments, it would be easier to appreciate the advantages and disadvantages of a particular form of presentation.

Additionally, we believe that a reference to the discharge of management's responsibility in the objective of the statement of comprehensive income is missing, and suggest aligning the objectives. It would also be interesting to explore whether this objective affects the preliminary views set out in this section of the DP.

Q 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, ie 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?

The question of recycling or not is ultimately an issue of whether profit or loss or comprehensive income is the primary performance measure in the statement of comprehensive income. If one agrees that profit or loss is the primary measure, then recycling is imperative in order to comply with the clean surplus principle of profit or loss (i.e., in the long run total profit or loss equals total cash flows). Otherwise there would be changes in equity that are never included in profit or loss, eroding the importance of profit or loss as the bottom line performance measure.

Alternatively, if one considers comprehensive income to be the primary performance measure, recycling should be prohibited. Recycling leads to OCI that is sometimes difficult to interpret because it undoes OCI elements of earlier periods, and is unrelated to current performance.

Given our support for profit or loss as the primary performance measure, we believe logical consistency requires recycling of all OCI items. Consequently, we do not agree with the preliminary view that still promotes the currently used mix of recycling and non-recycling items in OCI, which is difficult to interpret and conceptually inconsistent. Given our response

to this question, we also do not support Principle 3 in paragraph 8.40 (c), which introduces a mixed approach that is based on the relevance of information rather than the mechanics of accounting.

Q 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.

First of all, we recognise that our preference for profit and loss as primary measure of performance might lead to the conclusion that we think OCI is not necessary at all. However, we accept that the use of financial information in performance reporting requires a performance-related measure of profit or loss, the asset-liability approach can result in income patterns that do not portray the economics of a transaction, and the use of OCI can be a way to link financial reporting to performance reporting and eliminate inconsistencies.

Of the OCI definitions presented in the DP, we support Approach 2A with the narrow scope of OCI because it provides conceptually consistent accounting. In contrast, Approach 2B would seem to permit the CF to include all current OCI presentations without any underlying sound conceptual basis. In particular, some of the items labelled as 'transitory remeasurements' are not transitory, but persistent. This fact is implicitly acknowledged in the criteria of paragraph 8.88 of the DP, where (b) refers to remeasurements that '(…) reverse fully, or significantly change (…)'. 'Significantly change' is hardly compatible with transitoriness. The example of actuarial gains and losses on pensions is illustrative: the life expectancy of employees increases over time and is unlikely to reverse in the future. As a result, pension expenses are structurally under-recognised.

Another reason we do not support Approach 2B is that the additional items potentially eligible for inclusion in OCI without recycling are not sufficiently operational (see paragraph 8.88). (A similar argument is used to dismiss other potential distinguishing attributes in paragraph 8.38.) Furthermore, they appear to open the door for highly diverse OCI items introduced by individual standards.

In paragraph 8.94 of the DP own credit risk is categorised as a transitory remeasurement, whereas we believe it should be a bridging item or perhaps a mismatched remeasurement.

We see some merit in presenting transitory items separately, but within profit or loss. Taking up the DP concept of subtotals, we see it as a possible solution to present such transitory items as a subtotal within profit or loss, a mechanism that avoids recycling. This approach would highlight the items that are part of profit or loss, but have other characteristics that make them less useful for some analyses that users may want to undertake. Transitory items should then be restricted at the standards level, to avoid giving entities discretion in defining

them. For example, such an approach could be used for actuarial gains and losses.

9. OTHER ISSUES

CHAPTERS 1 AND 3 OF THE EXISTING CONCEPTUAL FRAMEWORK

Q 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.

We do not agree with this approach. The approach taken by the IASB in the 2010 amendment of the CF was – and still is – highly contentious.

In particular, we believe that elevating the stewardship/accountability objective of financial reporting to the same level as the decision-usefulness objective is warranted. We do not believe that the current approach of mentioning stewardship/accountability only casually in paragraph OB4 is helpful. The IASB appears to emphasise this objective in several paragraphs in the DP, so it would be more consistent to amend the objectives in the 2010 CF.

We also disagree with eliminating reliability and the trade-off between relevance and reliability from the 2010 CF. We believe that this trade-off is an important decision by the standard setter in developing standards.

Finally, we disagree with the elimination of prudence in the 2010 CF, especially because also recent standards and projects make use of the concept, even if without explicitly naming it. For example, the onerous test in revenue recognition is clearly a prudent measurement.

We have not fully analysed whether the effects of these changes have a strong impact on many principles developed in the DP. However, we are strongly convinced that they would make the DP more consistent with the developments in the more recent standards.

BUSINESS MODEL

Q 23 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?

We support the use of the business model concept. We disagree with the preliminary view that the business model should not be included in the CF, but should only be used at the standards level.

We read the discussion in this subsection of the DP as supportive of the use of the business model concept and therefore suggest including it explicitly in the CF. This would also provide a consistent framework for the application of a business model approach in sections 6–8 of the DP (with which we agree).

We would also suggest that the IASB provide guidance on the accounting for and disclosure of fundamental changes in the business model, e.g., in case of a significant (reverse) acquisition.

UNIT OF ACCOUNT

Q 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?

We do not agree with the preliminary view that the unit of account should be decided on the individual standards level. The main purpose of a CF is to give a conceptual foundation to important accounting issues of general application. The unit of account is such an issue and we suggest including principles for determining the unit of account in the CF.

We understand that it may be difficult to be very specific on this issue, but this concern also applies to other issues that are dealt with in the DP (e.g., presentation principles).

GOING CONCERN

Q 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?

From the discussion in the DP, we cannot tell whether the IASB intends to include a going concern principle in the CF or not, and if not, why not. In the current version of the CF, it is prominently stated in Chapter 4, paragraph 4.1.

The inclusion of this principle is fundamental to preparing financial statements. If the going concern assumption is not justifiable, then IFRSs no longer apply.

CAPITAL MAINTENANCE

Q 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.

We would appreciate it if the DP included an up-to-date discussion of capital maintenance instead of relying on the old CF description. We believe capital maintenance is a fundamental accounting issue, as the meaning and interpretation of performance depends directly on the capital maintenance concepts chosen.

The inclusion of a discussion of capital maintenance concepts is particularly important for financial reporting in hyperinflation economies and we believe the issue is important enough to warrant CF discussion, rather than deferring it to the standards level.

In particular, we believe that a thorough conceptual discussion of capital maintenance in the light of the qualitative characteristics of the CF and the measurement principles laid out in the DP is important for an assessment of the current revaluation approach allowed under IAS 16 and IAS 38. The concept underlying revaluation derives from physical capital maintenance, which is vestigial in IFRS and can only be explained by in the light of its historical evolution. We believe this mix of capital maintenance approaches under IFRS is undesirable and leads to a lack of comparability; it should therefore be eliminated.

At the very least, we suggest a revision of the current paragraphs 4.57–4.65, to be formally consistent with the rest of the CF in its modern form.

Kind regards,

Romuald Bertl

Chairman