



EFRAG Bulletin profit or loss versus OCI
European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on the EFRAG bulletin profit or loss versus OCI, using the same order that the questions are in the bulletin.

Question 1 – Different measurement bases

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

The business model should play an important role in the financial statements. In our opinion, it is a very important factor as it determines how the entity uses the assets to generate cash flow, which ultimately is the purpose of business. Thus, the business model meets the circumstances surrounding cash flow generation as the EFRAG document says. One of those circumstances is what the bulletin calls “critical event to the generating activities” and it is linked to market conditions at that critical event occurs.

Therefore, the same business model can have different characteristics depending on the market to which it is addressed or where this critical event occurs, what is clear is that the information provided by the market is a very important fact in relation to appropriated measurement bases. It is the idea that the document transmits when the transformation model is described.

In our opinion, the business model is important when selecting the measurement bases and analyzing the relevance of the information that a measurement bases offers, but it should be done a trade-off between this measurement bases and the reliability of the information that the specific market provides and this could lead to different measurement bases.



Regarding the question about the selection process measurement bases, we agree with the idea that first it is designated the measurement bases relating to the profit and loss, to the extent that the first thing to consider is the use that is given to the item discussed, that is, how the item contributes to generate cash flows and, in our opinion, that question is the same as how it contributes to the generation of income and how changes in the value of that element are generated.

The existence of different measurement bases in the case of statement of financial position and profit and loss is a very controversial issue. If the change in value of the asset or liability is not included in the profit and loss, the result is no longer a univocal concept and therefore the interpretation of the profit or loss for the period also becomes complex. However, it is also true that reporting income in OCI is a well-established practice and therefore the review of the conceptual framework should take in account this fact.

Under these considerations, we understand that there may be different measurement bases for the same element in statement financial position and profit and loss, in order to present different type of information; solvency, liquidity and changes in value.

Question 2 – Considering the business model

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

As indicated in the document, the concept of business model is subject to a great lack of definition. The models presented in the document seem correct but is difficult to say that it is collecting all possible existing models. Moreover, the description of the models in the document seems to conclude that the reliability of the information is not determined by business model but by the market in which the entity operates. As this is a fundamental characteristic of financial information, we understand that the focus should address this aspect more than the business model. We therefore consider essential to establish the use of the element to value it as a fundamental aspect in order to select the measurement basis is the appropriate way to include the concept of business model in financial reporting.

In our opinion, it is not entirely clear that the assets used in model 1 and 2 have to follow different criteria. In both cases, the item is an asset that is used and serves as a permanent structure of the company and, in certain cases, the operating cycle of the companies included in those models may have a similar duration.



Question 3 – OCI items

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

Considering the answer to question 1, we agree with the approach provided for these cases. However, in our opinion, the only case in which the use of OCI is unavoidable, perhaps, is the case of hedges of cash flows, in the absence of the premises which permit application of a model based on the fair value of the hedged item model and hedging instrument.

Question 4 – Recycling

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

Considering as indicated in the answer to question 1, the proposal seems appropriated, emphasizing the basic issues that arise in the wording of the bulletin, that is, the assumption that the market offers observable prices in a sufficiently reliable level and the time of sale as a key factor that triggers recycling.

In this sense, for a long-term horizon we are not sure that the last flow to be obtained from an asset whose sale is made in a market with reliable information is truly relevant. It may be more appropriate to consider the critical event of sale as performed in each year and therefore allocated directly to profit and loss.

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

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

The use of the current values has always been considered as a factor that can undermine the reliability of the information provided. In this sense, our view is that to the extent that the reliability is respected, it is possible to accept the use of the current values.



Question 6 – Changes in interest rates

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

El ICAC is on the view that this issue is needed to more complex analysis.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Madrid, 20th of November 2015

Ana M^a Martínez-Pina
Chairman of ICAC