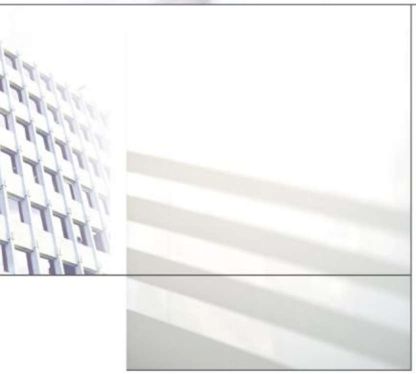

EFRAG

European Financial Reporting Advisory Group

Conceptual Framework

EFRAG Draft Comment Letter

EFRAG Board June 2015

Basis for this presentation

This presentation has been prepared before the exposure draft on the conceptual framework for financial reporting (‘the ED’) was published. There may accordingly be differences between what is presented as being the content of the ED in this presentation and the content of the published ED.

The objective of general purpose financial reporting

The ED gives more prominence to the assessment of **stewardship** than the current Conceptual Framework. However, stewardship is considered an element in the decision to buy, sell or hold equity and debt instruments.

- ☺ Supports more prominence
- ☹ Existing investors could need information for the assessment of stewardship in situations other than when deciding on buying, selling or holding equity and debt instruments.

Qualitative characteristics of useful financial information

The ED reintroduces an explicit reference to **prudence** as caution when making judgements under conditions of uncertainty.	☺ Reintroduction 😐 Should focus on standard setting (not preparers) 😐 Should explain that prudence is not inconsistent with neutrality ☹ More work to do to have the IASB definition coincide with European views.
The ED reintroduces '**substance over form**'.	☺ Reintroduction 😐 EFRAG TEG considers wording.
The ED states that **measurement uncertainty** affects relevance.	😐 EFRAG TEG considers whether it should be part of reliability/faithful representation.

Financial statements and reporting entities

The ED includes a description of a **reporting entit**y.	☺ Including a description 😐 Should consider differences between users in what information is useful 😐 Should explain what 'the perspective of the reporting entity as a whole' is.

The elements of financial statements

The ED includes new **definitions of assets and liabilities**. It removes the descriptions of gains, losses, revenue and ordinary activities.	☺ New definitions probably easier to understand (will test) ☹ Removing the descriptions of gains, losses, revenue and ordinary activities.
The ED provides guidance on a ‘present obligation’, executory contracts and constructive obligations.	😐 EFRAG TEG needs to discuss further.
The ED provides guidance on **unit of account**.	☹ Unit of account for measurement and recognition should be the same 😐 Testing whether it provides guidance.

Recognition and derecognition

Recognition 'thresholds' will be removed. Instead relevance, faithful representation and cost/benefits should be considered.	☺ Broadly agree, but room for improvement.
The ED includes guidance on **derecognition** and contract modifications.	☺ EFRAG suggestion that the difference with contract modifications should be considered 😐 EFRAG TEG needs to discuss guidance further.

Measurement

The ED categorises **measurement bases** as historical cost or current value.	☺ Broadly agrees.
The ED identifies the factors to consider when **selecting a measurement basis**.	☹ EFRAG considers the proposed guidance insufficient and disagrees with parts of it.
The ED states that it may be appropriate to use **different measurement bases** for the statement of financial position and the statement of profit or loss.	☺ Agrees with different measurement bases ☹ More guidance needed on when it would be relevant to use different measurement bases.

Presentation and disclosure

The ED states the **objective of financial statements**.	☺ Broadly agrees.
The ED describes the dual **objectives for profit or loss** as depicting the return that has been made and provide information that is helpful in assessing prospects for future cash flows.	☹ Guidance is insufficient.
The ED includes a rebuttable presumption that all items of **income and expense should be included in profit or loss** and that **OCI items should be recycled**.	☹ Not possible to discuss before it is known what profit or loss should represent.

Other issues

The ED identifies two **inconsistencies** with the current Standards.	☹ Not possible to provide a view on the analysis as it has not been sufficiently documented.
Entities will have a **transition period** of approximately 18 months.	😐 Question to constituents whether that would be possible.
The ED notes that the nature of an entity's **business activities** is likely to affect: measurement; the unit of account; the distinction between profit or loss and OCI; and presentation and disclosure.	☹ The guidance does not consider an entity's business model sufficiently.

EFRAG European Financial Reporting Advisory Group

EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.