



European Financial Reporting Advisory Group ■

EFRAG's preliminary position on the IASB
Exposure Draft *Conceptual Framework for
Financial Reporting*

Draft comment letter June 2015

EFRAG's overall assessment



	EFRAG preliminary position
<i>EFRAG agrees with</i>	<p>EFRAG welcomes the decision to revise the Conceptual Framework adopting a pragmatic approach with the objective of providing a solution to identified problems.</p> <p>EFRAG is pleased that the IASB has been responsive to some of EFRAG's requests, particularly by reconsidering the objectives and qualitative characteristics of financial reporting.</p> <p>EFRAG agrees with giving more prominence to stewardship and the re-introduction of prudence although more needs to be done in those areas.</p>
<i>EFRAG disagrees with</i>	<p>EFRAG disagrees with:</p> <ul style="list-style-type: none">• The proposal to consider measurement uncertainty in relation to relevance. EFRAG thinks that the term 'reliability' should be re-introduced and that measurement uncertainty should be considered when assessing whether information is reliable.• Not providing clear guidance on the selection of measurement basis.• Not providing a conceptual foundation for the reporting of performance, including what should be reported in profit or loss and when.

The objective of general purpose financial reporting and the qualitative characteristics of useful financial information



	EFRAG preliminary position
<i>Stewardship</i>	EFRAG welcomes the greater prominence given to the assessment of management's stewardship of the entity's resources in the description of the objective of financial reporting. However, EFRAG thinks that stewardship should be identified as a separate objective of financial reporting and not as in the ED, where it is presented as an element in the decision to buy, sell or hold equity and debt instruments.
<i>Prudence</i>	EFRAG welcomes the decision to re-introduce prudence in the Conceptual Framework and with the acknowledgement in the Basis for Conclusions that prudence may lead to asymmetry in the recognition of assets/income and liability/expenses without introducing any undesirable bias in financial reporting. These conclusions should, however, appear clearly from the Conceptual Framework and when describing prudence the focus should be on how it affects standard-setting rather than the behaviour of preparers of financial statements. EFRAG disagrees with the ED that prudence is an element of neutrality. Although prudence is not in conflict with neutrality, it is a separate element.
<i>Substance over form</i>	EFRAG welcomes the IASB's decision to reintroduce 'substance over form' but the IASB should revisit the drafting to avoid giving the impression that legal arrangements should be disregarded when determining the economic substance.

The objective of general purpose financial reporting and the qualitative characteristics of useful financial information



	EFRAG preliminary position
<i>Measurement uncertainty</i>	<p>EFRAG disagrees that measurement uncertainty should be an element of 'relevance'. In EFRAG's view it is part of 'reliability'. If the IASB considers that 'reliability' is interpreted inconsistently, the Conceptual Framework should be the opportunity of gaining a better understanding of what it should mean. The IASB should use the revision of the Conceptual Framework to reach common understanding with its constituents on what a 'reliable measurement' is.</p> <p>By including measurement uncertainty in 'reliability' the trade-off between relevance and reliability that existed in the pre-2010 Conceptual Framework would be re-established.</p> <p>The Conceptual Framework should explain that uncertainty plays a role in both recognition and measurement.</p>
<i>Relevance and faithful representation</i>	<p>EFRAG supports the Conceptual Framework continuing to identify relevance and faithful representation (or preferably, reliability (see above)) as the two fundamental qualitative characteristics of useful financial information.</p>

Financial statements and reporting entities



	EFRAG preliminary position
<i>Description and boundary of a reporting entity</i>	<p>EFRAG agrees that a reporting entity is not necessarily a legal entity and that an entity can prepare both individual and consolidated financial statements.</p> <p>EFRAG disagrees with including a statement in the Conceptual Framework that consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements without acknowledging the circumstances where this may not be the case.</p> <p>EFRAG considers that it would be beneficial to further explain in the Conceptual Framework what the implications of the entity approach are as there seems to be different views on the consequences of this.</p>

The elements of financial statements



	EFRAG preliminary position
<i>Definitions of elements</i>	<p>EFRAG tentatively agrees with the proposed definitions of: an asset, an economic resource, a liability, equity, income and expenses.</p> <p>EFRAG disagrees with removing the descriptions of revenue as this could indicate that profit or loss and OCI is less important than indicated by the current version of the Conceptual Framework.</p> <p>EFRAG disagrees with removing the description of ordinary activity. It is useful to explain this concept as it plays a role in IFRS 15 <i>Revenue from Contracts with Customers</i>.</p> <p>EFRAG disagrees with stating that if one party has a liability another party has an asset as this could potentially result in unintended consequences.</p>
<i>Present obligation</i>	<p>EFRAG generally agrees with how the ED describes a 'present obligation' and a constructive obligation. However, EFRAG is concerned that the guidance is not sufficiently clear.</p>

The elements of financial statements



	EFRAG preliminary position
<i>Other guidance on the elements</i>	<p>EFRAG disagrees with how the ED deals with executory contracts. EFRAG believes that it is necessary for the Conceptual Framework to include guidance on when it is useful to recognise an executory contract and when it is not useful.</p> <p>EFRAG is uncertain about whether the discussion on the unit of account provides sufficient guidance for the IASB.</p> <p>EFRAG thinks that the unit of account for measurement decisions and recognition decisions should generally be the same.</p>

Recognition and derecognition



	EFRAG preliminary position
<i>Recognition</i>	<p>EFRAG generally agrees that assets and liabilities should be recognised when they provide users of financial statements with relevant information that faithfully represents what it purports to present and where the benefits are exceeding the cost of providing that information.</p> <p>However, in some areas EFRAG is concerned that the guidance proposed is insufficient to ensure consistent standard-setting in the future.</p>
<i>Derecognition</i>	<p>EFRAG agrees with the ED that the aim of derecognition is both to depict faithfully an entity's financial position resulting from a transaction or event and income or expenses resulting from that transaction or event.</p>

Measurement



	EFRAG preliminary position
<i>Measurement bases</i>	<p>EFRAG agrees that, in principle, it makes sense to categorise measurement bases as either historical cost or current value.</p> <p>EFRAG also broadly agrees with the ED's description of the information provided by each of the measurement bases. EFRAG welcomes the descriptions as their inclusion would improve the Conceptual Framework.</p> <p>EFRAG, however, thinks that the Conceptual Framework should consider the possible use of market-consistent measurement bases other than fair value. Such measurement bases could be useful in circumstances where an entry market, and not an exit market is relevant or when own credit risk changes are deemed irrelevant.</p>
<i>Selection of a measurement basis</i>	<p>In EFRAG's view the Conceptual Framework should include guidance on:</p> <ul style="list-style-type: none">a) How to select measurement bases that are useful for reporting both the financial position and the performance of the entity;b) When to select between market-consistent and entity-specific measurement bases; andc) When customisation of measurement bases could be useful. <p>The ED only mentions factors to be taken into account when selecting a measurement basis and is considered insufficient.</p>

Measurement



	EFRAG preliminary position
<i>Multiple measurement bases</i>	EFRAG believes that in some cases reflecting the business model in measurement will lead to different measurement bases used for the statement of financial position and the statement of profit or loss. EFRAG accordingly disagrees with the ED which, although acknowledging that different measurement bases could be useful, considers the use of different measurement bases as an exception.

Presentation and disclosure



	EFRAG preliminary position
<i>Objective and scope of financial statements and communication</i>	<p>EFRAG agrees with the proposals included in the ED on the objective and scope of financial statements and communication, which are consistent with its past proposals on the 'Disclosure Framework'.</p> <p>EFRAG thinks that the IASB should consider how to distinguish between presentation and disclosure.</p>
<i>Description of the statement of profit or loss</i>	<p>EFRAG supports the description of the statement of profit or loss proposed in the ED.</p> <p>The ED states that the purpose of the statement of profit or loss is to:</p> <ol style="list-style-type: none">Depict the return that an entity has made on its economic resources during the period; andProvide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources. <p>EFRAG recommends that the IASB provide some basis to ensure that all constituents have a common understanding of the 'return on an entity's economic resources' that should be depicted.</p>

Presentation and disclosure



	EFRAG preliminary position
<i>Reporting items of income or expenses in other comprehensive income</i>	EFRAG disagrees with the IASB's proposal that profit or loss should be "as inclusive as possible". This proposal could result in profit or loss becoming 'comprehensive income', i.e. include (almost) all current value adjustments.
<i>Recycling</i>	EFRAG does not agree with including a rules based rebuttable presumption on recycling in the Conceptual Framework. Instead a principle that no item of income or expense should be permanently excluded from profit or loss should be included. This principle should be explained similarly to how it is done in the Basis for Conclusion. As with other principles, the IASB could choose to depart from it when setting standards if the rationale for doing so is explained.

Other issues

	EFRAG preliminary position
<i>Effects of the proposed changes to the Conceptual Framework</i>	<p>EFRAG agrees that the Conceptual Framework should not override any Standards.</p> <p>As the Conceptual Framework does not provide clear directions for future standard-setting activity, the effect analysis of inconsistencies with current Standards is not very helpful.</p>
<i>Business activities</i>	<p>EFRAG welcomes the acknowledgement of the role the business model should play in measurement, in identifying different measurement bases for the statement of financial position and the statement of profit or loss, and in selecting the unit of account.</p> <p>However in EFRAG's view the proposed Conceptual Framework would limit the role of the business model in measurement without stating why and how it would be limited, and does not consider the role it could play in recognition.</p> <p>EFRAG thinks that the term 'business model' that has been introduced with IFRS 9 <i>Financial Instruments</i> should be retained and described for financial reporting purposes instead of introducing the term 'business activities'.</p>

Other issues



	EFRAG preliminary position
<i>Long-term investment</i>	<p>EFRAG requests that the Conceptual Framework include additional guidance on the unit of account, measurement and presentation. In the absence of such guidance at present, EFRAG disagrees that the Conceptual Framework provides sufficient guidance on how to reflect long term investment business models.</p> <p>Where financial reports genuinely provide information that is necessary to make decisions to buy, hold and sell and to assess the stewardship of management, EFRAG believes that it is not necessary to differentiate among investors on the basis of their investment horizon.</p>

**Comments on EFRAG's draft comment letter
should be submitted by [date] to commentletters@efrag.org**



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