

EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Conceptual Framework

Input from EFRAG TEG

Introduction

- 1 On 8 July 2015, EFRAG issued its Document for Public Consultation on the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* ('the ED'). EFRAG updated this document on 8 November 2015 to reflect its preliminary views. EFRAG's Draft Comment Letter in response to the IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* ('ED/2015/4') was issued on 10 August 2015. The comment period for both the Document for Public Consultation and the Draft Comment Letter ended on 18 November 2015.
- 2 EFRAG TEG considered the comments of constituents at its December 2015 meeting.

EFRAG TEG considerations

- 3 Based on the comments of constituents EFRAG TEG decided to suggest some changes to the tentative views expressed in EFRAG's updated Document for Public Consultation for the purpose of finalising EFRAG's comment letter in response to the ED. These changes were incorporated in to an EFRAG TEG suggested comment letter (Agenda papers 11.03a and 11.03b for this session).
- 4 The comments received in response to EFRAG's Draft Comment Letter in response to the ED/2015/4 did not result in EFRAG TEG suggesting major changes.
- 5 The main changes between the Document for Public Consultation and the EFRAG TEG suggested comment letter are:
 - (a) In response to Question 1(a) on stewardship the EFRAG TEG suggested comment letter includes a description of the implications of 'stewardship' for standard setting. EFRAG TEG noted that relatively many constituents were uncertain about the implications of including 'stewardship' in the Conceptual Framework or had conflicting views. The suggested response notes that the necessary information should be both forward-looking and backward-looking as stewardship is both about how the management has positioned the entity for the future and what the management has done in a given period.
 - (b) In response to Question 1(a) on stewardship, the discussion about whether preparers should be considered users of financial statements has been redrafted. The 8 November version of the Document for Public Consultation included the view that the IASB should explain how and why meaningful information would be provided in situations where preparers converged and opposed to a proposal. Constituents thought that this statement said that the IASB should listen more to preparers than other groups of constituents. EFRAG TEG did not think this was the intention. EFRAG TEG accordingly

decided to replace the statement. The EFRAG TEG suggested comment letter states that if preparers consider that the information resulting from a Standard is useful for them, it could indicate that information resulting from a Standard is useful for users - and vice versa.

- (c) In response to Question 1(d) on prudence, the recommendation included in the Document for Public Consultation to replace 'faithful representation' with 'reliability' has been removed in the EFRAG TEG suggested comment letter. EFRAG TEG noted that constituents had different views on whether 'reliability' or 'faithful representation' would be the best term to use. EFRAG TEG thought that the substance was more important than the term used. Its primary concern was that measurement uncertainty was included in the term 'relevance' in the ED. EFRAG TEG recommended focusing on this issue rather than whether the term 'reliability' or 'faithful representation' should be used.
- (d) In response to Question 3 on the definitions of elements, it has been added in the EFRAG TEG suggested comment letter that the IASB should consider situations where Standards would not result in useful matching of expenses with related income. In those cases, the IASB should carefully assess whether the information provided would be relevant. EFRAG TEG added these sentences as some constituents thought the Conceptual Framework should acknowledge the 'matching principle'. EFRAG TEG discussed whether the matching principle should be given more prominence. EFRAG TEG was uncomfortable with a situation where the Conceptual Framework would explicitly allow or require items to be recognised that would not meet the definition of an asset or a liability. However, EFRAG TEG thought that the IASB should consider whether it would be useful to deviate from aspects of the Conceptual Framework, if relevant information about matching could not otherwise be provided in particular circumstances.
- (e) In response to Question 5 on other guidance on the elements, the suggestion to distinguish between core and non-core transactions that was suggested in the Document for Public Consultation in relation to executory contracts has been removed in the EFRAG TEG suggested comment letter. The Document for Public Consultation stated that the Conceptual Framework should include guidance on when it is useful to recognise an executory contract and when it is not useful. Considering whether entering into a contract is a core transaction (compared to fulfilling the contract) could be an element in such guidance. Some constituents did, however, not think that such a distinction would work. EFRAG TEG could not see alternative manners by which the IASB could provide guidance on when to recognise executory contracts and when not to do so. It therefore decided that it could only state that it was uncertain about the consequences of the ED on executory contracts.

The EFRAG TEG Chairman Françoise Flores did not agree with EFRAG TEG's suggestion. She thought that although EFRAG TEG could not provide any ideas on how to differentiate between executory contracts that should be recognised and executory contracts that should not be recognised, EFRAG should ask the IASB to provide guidance on this. She thought that the current practice was not to recognise any asset or liability in relation to an executory contract, except for in a few cases. This had worked well. She thought that without any guidance in the Conceptual Framework that would limit the types of executory contracts that should be recognised, the conceptual starting point, which would drive future standard-setting decisions, would be that all executory contracts should be recognised (although sometimes measured at

zero depending on the measurement guidance). She did not think there was any reason to change a practice that had worked well with something that might have unintended consequences.

- (f) In response to Question 6 on recognition criteria, it has been added in the EFRAG TEG suggested comment letter that although EFRAG does not support the inclusion of a probability recognition threshold in the revised Conceptual Framework, the IASB could usefully acknowledge that such a threshold would be useful in particular Standards. The statement was included by EFRAG TEG as some constituents thought that recognition thresholds in Standards could be useful, and EFRAG TEG agreed with that.
 - (g) In response to Question 10 on the use of multiple measurement bases, the answer has been amended in the EFRAG TEG suggested comment letter to reflect that the IASB has not sufficiently described what the purpose of the statement of the financial position and the statement of profit or loss is. Before the IASB has agreed on this, it would be prematurely to state that different measurement bases should be an exception. Based on comments from constituents, EFRAG TEG also suggested that the comment letter should not state that different measurement bases could be used in the statement of profit or loss and in the statement of financial position. Instead it should state that there may be cases where it would be useful to analyse income and expenses arising from a chosen measurement basis into their component parts in profit or loss and OCI.
 - (h) In response to Question 14 on recycling, the statement that profit or loss should reflect how an entity is generating profit based on its business model(s) has been removed. The comments EFRAG received in response the Bulletin *Profit or loss versus OCI* and the response to Question 16 in the ED on business activities reflected that constituents thought that the business model was one of the key factors to determine what performance is. However, other factors than the business model should also be considered.
 - (i) In the response to Question 17 on long-term investments, references to the Bulletin *Profit or loss versus OCI* have been removed in the EFRAG TEG suggested comment letter. Constituents generally thought that the business model should play a role in financial reporting, but other factors should also be considered. EFRAG TEG accordingly decided not to suggest presenting the approaches included in the Bulletin in the comment letter in response to the ED.
- 6 EFRAG's Document for Public Consultation included a question to constituents on whether the chapter of capital and capital maintenance should be removed from the Conceptual Framework until further work on this had been done. EFRAG TEG noted that only few constituents provided an answer to this question, which in some jurisdictions could be considered controversial. As the IASB did not ask for comments on this issue, EFRAG TEG decided to recommend EFRAG not to provide a view on this.

EFRAG TEG members supporting the EFRAG TEG suggested comment letter

- 7 The following EFRAG TEG members supported the EFRAG TEG suggested comment letter: Mike Ashley, Anthony Appleton, Phil Aspin, Christian Chiarasini, Günther Gebhardt, Nicklas Grip, Heinz Hense, Sven Morich, Serge Pattyn, Andrew Spooner and Ambrogio Virgilio. Tommaso Fabi abstained. Other EFRAG TEG members were absent when the vote took place.