This feedback statement has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by either the EFRAG Board or the EFRAG Technical Expert Group. It has been reviewed by the staff of IASB and has been jointly approved for publication by representatives of EFRAG and the Norwegian Accounting Standards Board, who attended the joint outreach event.
Joint Outreach Event

This feedback statement has been prepared for the convenience of European constituents to summarise a joint outreach event held by EFRAG and the Norwegian Accounting Standards Board (NASB), in cooperation with the IASB, on 16 September 2015.

The joint outreach event was one of a series organised across Europe, following the publication of the IASB Exposure Draft ED/2015/3 Conceptual Framework for Financial Reporting (the ‘Exposure Draft’). The purpose of the outreach event was to:

- stimulate debate on the Conceptual Framework in Europe;
- obtain input from European constituents and to understand their main concerns and wishes, in particular from those that may not intend to submit a comment letter to the IASB or EFRAG;
- receive input for the NASB’s comment letter to EFRAG and the IASB; and
- learn whether the comments, as set out in EFRAG’s document for public consultation, were shared by European constituents.

Yulia Feygina (IASB Senior Technical Manager) presented the Exposure Draft on selected issues and Rasmus Sommer (EFRAG Senior Technical Manager) summarised EFRAG’s document for public consultation and EFRAG’s Bulletin Profit or loss versus OCI. An open debate then took place with participants.

The participants had different backgrounds, and included users, preparers, auditors, regulators and academics.

Issues covered

Participants discussed the following issues:

- the objective of general purpose financial reporting and the qualitative characteristics of useful financial information;
- financial statements and the reporting entity;
- the elements of financial statements;
- recognition and derecognition;
- measurement; and
- presentation and disclosures.
Comments received

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

A participant thought that the problem of moral hazard should be mentioned in the Conceptual Framework.

A participant noted that in relation to the objective of general purpose financial reporting the problem of moral hazard should be mentioned. This was currently not considered in the Exposure Draft. He believed that it should be included in a footnote.

A participant thought it was unclear whether the concept of stewardship included both the short-term and long-term investment perspectives.

The Exposure Draft gives greater prominence to the assessment of management’s stewardship of the entity’s resources in the description of the objective of financial reporting than the current Conceptual Framework. A participant observed that stewardship was subsumed in the ‘decision usefulness’ objective (information useful for making buy-hold-sell decisions). He felt the concept of stewardship was not clearly defined; such as whether the concept included the perspectives of both short- and long-term investors. The IASB Senior Technical Manager replied that the IASB considered that the concept of stewardship included both the short- and the long-term investment perspectives and focused on the reflection of how management discharged its responsibilities. She noted that the Exposure Draft acknowledged both the objective of assessing future cash flows, as well as the objective of assessing management’s stewardship. She thought that the two objectives would not always be aligned, which could result in the IASB having to consider requiring additional information.

A participant thought that the terms ‘resource’ and ‘economic resource’ were not used consistently.

A participant noted that the Exposure Draft mentioned ‘resources’ when discussing stewardship. However, other parts of the chapter referred to ‘economic resources’. He asked whether this was intentional. The IASB Senior Technical Manager replied that it was a drafting error, as the IASB intended to use the same terms.

A participant did not expect that the assessment of stewardship would require different information than buy-hold-sell decisions.

A participant believed that analysts did not need different information for the assessment of stewardship and for making buy-hold-sell decisions. Therefore, it was not necessary to include the assessment of the management’s stewardship as an additional and separate objective.
A participant thought that 'primary users' should include more types of users.

A participant thought that the user group mentioned in the current Conceptual Framework and in the Exposure Draft (existing and potential investors, lenders and other creditors) was too narrow. The needs of more types of users should be considered.

A participant thought that most academic theory concluded that the objectives of stewardship and buy-hold-sell decisions were competing.

A participant noted that most academic research concluded that the objectives of stewardship and buy-hold-sell decisions were competing. He observed that information that would be relevant for capital markets would not always be useful to assess how well the management had done its job in relation to decisions on remuneration or bonuses. He thought that measurement at fair value was more important for serving the needs of capital markets than for the assessment of the performance of the management. He noted that in many cases the assessment of stewardship was reflected in contracts (for example, between the management and the shareholders or between the company and the bank). In his opinion, financial reporting should therefore aim at providing useful information for capital markets. If necessary, a company could choose to publish customised reports in addition to the general financial reports, to allow specific stakeholders to assess stewardship. He accordingly thought that the objective of providing information useful for buy-hold-sell decisions should have priority over the objective of providing information useful for assessing stewardship.

A participant noted that the IASB should acknowledge the competing objectives in the Conceptual Framework. The Conceptual Framework should also provide a hierarchy of the objectives. He felt that setting accounting standards involved trade-offs. This also applied in relation to, for example, the cost constraint. The Conceptual Framework should therefore explain these trade-offs and provide guidance to support the IASB in addressing them.

A participant thought that the objective of providing information useful for buy-hold-sell decisions should have priority over the objective of providing information useful for assessing stewardship.

A participant thought that the Conceptual Framework should reflect the trade-offs in accounting and how the IASB should address them.
Another participant thought that the objective of stewardship was not in conflict with the objective of providing information for buy-hold-sell decisions.

Some participants did not agree with the IASB’s definition of prudence.

A participant found that ‘prudence’ was an empty concept in the Exposure Draft.

A participant preferred the current Conceptual Framework with regards to stewardship. He noted that the concept had been added in too many places in the ED. He did not believe that the objective of assessing stewardship was in conflict with the objective of providing information for buy-hold-sell decisions. For example, he thought that measuring assets and liabilities at fair value was also useful for assessing the stewardship of management. He therefore believed that the objective of assessing stewardship was already present in the current version.

The Exposure Draft proposes to reintroduce the concept of prudence in the Conceptual Framework. A participant did not agree with how the IASB had defined ‘prudence’ in the Exposure Draft. He thought that the proposed definition did not reflect what prudence was. He thought that the explanation of prudence included in EFRAG’s document for public consultation better reflected what prudence was. He thought that the IASB’s approach seemed very pragmatic: the IASB reintroduced the word, but gave it a different meaning. The IASB Senior Technical Manager asked whether it was more appropriate to focus on neutrality or bring in accounting asymmetry. The participant replied that the word ‘prudence’ should not have been used to convey neutrality. A second participant added that ‘prudence’ seemed to be an empty concept if not linked to overstating or understating items. She felt it did not add something to the concept of neutrality. A third participant believed that the current definition of prudence was confusing. He felt that the current guidance only stressed the importance of precision in measurement, i.e. to spend more time in performing the measurement of an asset. In his opinion, this was not consistent with the fact that stakeholders perceived that overstating assets was a more serious offense than understating. He felt prudence did not mean hidden reserves, but a more cautious approach towards overstating assets. A fourth participant believed that prudence was intended to counterweight the management’s optimism and, therefore, by countering management’s bias, to achieve neutrality. The IASB Senior Technical Manager asked whether the Exposure Draft needed to articulate asymmetry. The second participant replied that she felt comfortable with the application of asymmetry in standard setting, but she felt it was difficult to see how the IASB would apply asymmetry in future standard setting.
A participant thought that the Conceptual Framework did not discuss how the concept of prudence was expected to impact standard setting.

A participant noted that the concept of prudence was only addressed in relation to preparers in the Exposure Draft, whilst the Conceptual Framework was intended to be used primarily for standard setting. He felt it was not clear how asymmetry would be applied in standards.

A participant thought that the meaning of terms was more important than the terms used and that measurement uncertainty was more related to reliability than to relevance.

Participants discussed whether the Conceptual Framework should use the terms ‘faithful representation’ or ‘reliability’, and whether measurement uncertainty should be considered part of ‘relevance’ or ‘reliability’. A participant noted that the content was more important than the term used. He also stated that, in his opinion, measurement uncertainty was closer to reliability than to relevance.

A participant thought that reliability should be perceived as a counterweight to relevance.

A participant felt that the concept of uncertainty seemed to fit better under ‘reliability’. He noted that uncertainty also affected recognition and should be perceived as a counterweight to relevance. Another participant noted that investors would agree that uncertainty would affect relevance. However, she found it difficult to agree with the concepts of faithful representation and relevance, as she was used to the trade-off between reliability and relevance.

A participant thought that ‘substance’ over form meant that the economic substance prevails, if different from the legal form.

The Exposure Draft proposes to reintroduce ‘substance over form’ within the concept of faithful representation. A participant asked whether ‘substance over form’ meant that an entity should first account for an item in accordance with the legal arrangement and then verify that this reflected the underlying economics. The IASB Senior Technical Manager replied that the Exposure Draft focused on economic substance by stating that, if the economic substance was different from the legal form, the substance should prevail.

A participant thought that the purpose of reintroducing ‘substance over form’ was unclear.

A participant asked what the IASB wanted to achieve by reintroducing the ‘substance over form’ concept. The concept seemed self-evident. On the other hand, the participant noted that the economic effect of the legal environment should not be disregarded.

A participant asked what was meant with legal form. He referred to IAS 39 Financial Instruments: Recognition and Measurement where the local laws are not considered part of the legal form of the contracts. The IASB Senior Technical Manager noted that this issue would be addressed by the Exposure Draft, as the broader laws and regulations would be considered part of the substance of the contract.
Different views on whether the reintroduction of ‘substance over form’ concept was useful.

A participant thought that it was not useful to include the ‘substance over form’ concept in the Conceptual Framework. He thought that the concept just said that preparers had to do what the standards told them to do. He believed the concept would have been more useful twenty years ago, when assets were only recognised if legally owned. He noted that today most people knew that assets in financial statements could be different from assets in accordance with local laws. He provided the example of leases, where the legal form did not matter. Another participant did not agree. He felt that, in leasing, the principle of ‘substance over form’ would require that a series of separate, but related, contracts are considered together for accounting purposes. He supported the reintroduction of the concept and noted that the concept had been included in the Conceptual Framework of 1989, but was removed in 2010, in order to achieve convergence with the FASB conceptual framework.

Several participants thought that additional guidance was needed on combined financial statements and the concept of control.

Financial statements and the reporting entity

The Exposure Draft provides more guidance on the role of financial statements and the reporting entity than the current Conceptual Framework. A participant believed that guidance on combined financial statements should be added as it currently seemed to allow for many different things.

A participant referred to paragraph 3.17 of the Exposure Draft, which states that financial statements are sometimes prepared for two or more entities that do not have a parent-subsidiary relationship with each other. The participant asked how the boundaries of a reporting entity could be determined in other manners than through the parent-subsidiary relationship. The IASB Senior Technical Manager noted that it would be quite challenging for the IASB to discuss the boundaries of the reporting entity within the Conceptual Framework, instead of through the development of a standard. Several participants noted that a discussion of combined financial statements in the Conceptual Framework would be helpful.

A participant noted that, in relation to the discussion of the reporting entity, a discussion in the Conceptual Framework on the concept of control would be useful.

A participant noted that it was difficult to ring fence a part or a legal entity. It could therefore be difficult to prepare financial statements for such a part. Another participant believed that IFRS should not allow entities to prepare combined financial statements, if these entities were not under current common control, but would only be under common control in the future.
A participant noted that some type of guidance (‘a bright star’) was necessary in the Conceptual Framework to establish what elements could be included in combined financial statements under IFRS.

A participant thought that the discussion on the role of financial statements belonged in Chapter 1.

The elements of financial statements

A participant thought that the definition of a resource did not seem to consider the organisational design.

A participant noted that the discussion on the role of financial statements included in the Exposure Draft, in relation to the discussion of financial statements and the reporting entity, did not belong in that chapter, but should be moved to Chapter 1, about the objective of general purpose financial reporting.

A participant thought that the role of financial statements included in the Exposure Draft, in relation to the discussion of financial statements and the reporting entity, did not belong in that chapter, but should be moved to Chapter 1, about the objective of general purpose financial reporting.

The elements of financial statements

A participant thought that the opposite of assets should also be defined.

A participant noted that the definition of a resource did not seem to consider the organisational design, which sometimes could be valuable and sometimes could be catastrophic. He noted that the term ‘organisation’ was not used in the Conceptual Framework. The IASB Senior Technical Manager replied that the term ‘right’ was not intended to be similar to ‘legal right’. In addition, the Exposure Draft did not refer to the entity’s structure as, for example, a bad structure did not result in the recognition of liabilities.

A participant thought that the chapter on the elements of the financial statement was the most important chapter of the Exposure Draft. This meant that any unnecessary words should be removed so that the wording would be as precise as possible. He noted that the definition of an asset was quite well formulated, but he thought that a different definition was necessary for the opposite of assets. This could be a definition of claims. In addition, he referred to paragraph 4.6 of the Exposure Draft and asked whether it was intended to convey the message that some rights were not economic resources.

A participant thought that the symmetry in the identification of assets and liabilities in the Exposure Draft was useful.

A participant thought that recognising a liability in relation to a specific restructuring was not useful.

A participant thought that the opposite of assets should also be defined.

A participant disagreed with EFRAG’s position that it was not useful to state that, if one party has an obligation to transfer an economic resource, another party (or parties) has a right to receive that economic resource (paragraph 4.25 of the Exposure Draft).

The EFRAG Senior Technical Manager asked whether the participant would recognise a liability in a specific case of a restructuring. An entity would need to carry out a restructuring in order to continue as a going concern. In order to carry out the restructuring, the entity needed the services from legal advisors, but had not yet decided what legal advisors to use. The participant did not think she would recognise a liability in that case.
A participant thought it was inconsistent that an asset could be held by the society at large, but that a right that is identical to those held by all other parties is not an economic resource.

A participant thought that the definition of a liability did not have to refer to a past event.

A participant referred to paragraph 4.10 of the Exposure Draft which states that, if an entity has rights that are identical to those held by all other parties, those rights do not give the entity the potential to receive economic benefits beyond those available to all other parties. He thought this was inconsistent with saying in paragraph 4.25 of the Exposure Draft that a right to receive an economic resource (an asset) could be held by the society at large. He also noted that the reference to ‘past event’ in the definition of a liability was not necessary, as the concept of a ‘present obligation’ was the most important feature. Furthermore, he observed that no discussion was included on past events in relation to the definition of an asset.

A participant was concerned about the concept of ‘practical ability to avoid’. He considered the discussion in the Exposure Draft on when an entity has no practical ability to avoid a transfer (paragraph 4.33) to be very loosely written. His understanding was that the fact that something bad would happen to an entity if it did not perform a certain action was not sufficient to recognise a liability. Something catastrophic should happen to the entity in order for it to have a liability in relation to the specific action. Another participant believed the requirement in the Exposure Draft was similar to taking economic compulsion into account when identifying liabilities. Another participant suggested to use the term ‘no realistic alternative’ instead of ‘no practical ability to avoid’.

A participant asked how the definition of an asset would affect goodwill. The IASB Senior Technical Manager replied that in her view, in cases where goodwill consisted of future synergies, it had the potential to generate benefits. Therefore, it would be considered an asset. She noted that, if the goodwill was the result of overpayment, the asset would be subject to impairment.
A participant thought that the guidance on executory contracts was confusing and inconsistent with IAS 32.

The Exposure Draft proposes additional guidance on the accounting for executory contracts. A participant noted that the guidance was confusing and seemed inconsistent with IAS 32 Financial Instruments: Presentation. He referred to the discussion on leasing in paragraph BC4.91 of the Basis for Conclusions accompanying the Exposure Draft, which seemed to imply that the leasing standard was flawed. Another participant felt that the guidance on executory contracts should be included in the unit of account guidance, as it was primarily a unit of account issue. He also believed that, in almost all cases, an executory contract was either an asset or a liability, evolving between the two over time. Finally, he noted that the measurement of executory contracts in Chapter 6 was not sufficiently developed.

A participant thought that the guidance on executory contracts should be moved to a later chapter of the Conceptual Framework.

A participant thought that more guidance was needed on the unit of account.

A participant thought that the IASB should address the unit of account in a separate project.

A participant believed that it was difficult to have a complete view of all the possible unit of accounts. He felt that the IASB should have a separate project on the unit of account to address all the issues in relation to this, as the guidance included in the Exposure Draft was not very convincing. The IASB Senior Technical Manager replied that the guidance was not intended to provide a complete scientific response, but only provide some basis to develop further at a standards level. The participant noted that, in the oil industry, the guidance applied was developed in US GAAP. He was concerned that there could be conflicts with what was proposed in the Conceptual Framework and the US guidance.

A participant was concerned about the implications for the oil industry’s application of US GAAP.

A participant noted that, if an item no longer qualified for recognition, it should be derecognised.

Recognition and derecognition

A participant believed that, in principle, there should be symmetry between recognition and derecognition. He agreed with the discussion on existence uncertainty included in the Exposure Draft, but noted that uncertainty should be discussed in the chapter on measurement. Finally, he suggested that the reference to ability (‘can’) in paragraph 5.17 of the Exposure Draft be deleted (“an asset or a liability can exist even if there is a low probability that there will be an inflow or outflow of economic benefits”). The discussion should note that recognition is a continuous process, as the cost constraint may delay recognition up to a certain point in time.
**Measurement**

A participant noted that, in the past, the conceptual frameworks from the IASC and FASB were heavily promoting fair value, whilst now it seemed more in the direction of historical cost. The IASB Senior Technical Manager replied that measurement could trigger very passionate debates.

A participant noted that the discussion in the Exposure Draft focused on the end result, but provided little guidance on when to use which measurement basis. He also noted that cash-flow-based measures was removed from the discussion.

A participant felt that the Exposure Draft provided little guidance, as it was very high-level. He noted that this seemed inconsistent with the statement in the Basis for Conclusions of the Exposure Draft that the IASB did not support issuing high-level guidance. He also noted that the Discussion Paper addressed certain issues that were no longer discussed in the Exposure Draft. Another participant noted that the Discussion Paper was considered much more direct, with respect to giving principles, when to use fair value and when to use amortised cost.

A participant thought that the fundamental building blocks for addressing measurement were missing. Participants noted that guidance on the different elements of a measurement basis was missing. For example, guidance should be provided on when entity specific value should be used, instead of a market value, and if the amount should be discounted, and if so, what discount rate should be used and whether this should take credit risk into account.

A participant had some concerns on the guidance on value in use, as it seemed as if the same terminology was used with different meanings. He believed that, after recognising an impairment loss, amortised cost was equal to fair value.

**Presentation and disclosures**

A participant thought that financial performance should be defined.
A participant noted that the Exposure Draft only mentioned two statements: the statement(s) of performance and the statement of financial position. He observed that this could be interpreted as giving priority to two of the four statements mentioned in IAS 1. He also referred to the Basis for Conclusions which specified that the other statements would not be discussed at this time.

Another participant noted, in relation to EFRAG’s Bulletin Profit or Loss versus OCI, that many entities in Norway have difficulties in applying IAS 41 Agriculture as the Standard requires entities to measure salmon at fair value. EFRAG’s Bulletin seemed to suggest that the salmon could be measured at cost, which was seen as a preferable solution.

A participant thought that the Exposure Draft did not refer to the statement of cash flows.

A participant was concerned about the lack of reference to the statement of cash flows.

A participant thought that limiting the possibility to use OCI represented a step forward.

A participant noted that the guidance represented a step forward by limiting the possibility to use OCI when setting standards. In the past, there were many debates on what to record in OCI and he was pleased that the risk of future debates was reduced.

A participant thought that fair value changes reported in OCI should never be recycled.

A participant questioned the rebuttable presumption included in the Exposure Draft that items reported in OCI should be recycled to profit or loss, or that fair value changes could be reported in OCI. He did not think that changes in the fair value should ever be recognised in any other period than when the change occurred.