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Berlin, 14 January 2014

Dear Françoise,

Draft Comment Letter - A Review of the Conceptual Framework for Financial Reporting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's Draft Comment Letter on the IASB's Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (herein referred to as the 'DP').

We appreciate the opportunity to respond to EFRAG's Draft Comment Letter. Our answers to the questions to constituents included in EFRAG's Draft Comment are detailed in the appendix to this letter. Furthermore, we attach to this letter our comments and arguments on the DP that we submitted to the IASB.

Generally, we strongly agree with EFRAG's view that conflicts with some requirements in existing IFRSs arising from a revised *Conceptual Framework* should be identified at the level of the exposure draft, so that constituents have a clearer understanding of the possible outcomes of the proposed changes. Similarly, we agree that although revising the *Conceptual Framework* will not have any immediate consequences for how financial statements are prepared, it should accordingly have implications in the long-term.

We would like to point out that our views and alternative proposals differ from EFRAG's tentative views particularly on the following issues addressed in the DP:



- Distinction between equity and liabilities and the presentation of wealth transfers (DP - Question 10)
- Additional guidance on materiality (DP - Question 17)
- Communication principles (DP - Question 18)
- Approaches to profit or loss and recycling (DP - Questions 19-21)
- Stewardship, prudence and reliability (DP - Question 22)
- Business model (DP - Question 23)
- Unit of account (DP - Question 24)

If you would like to discuss our comments and alternative proposals further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Appendix - Answers to the questions of EFRAG's Draft Comment Letter (DCL)

Economic benefits to the entity

EFRAG's questions to constituents

EFRAG has discussed whether an economic resource should be defined as a right, or other source of value, that is capable of producing economic benefits to the entity. That is, whether 'to the entity' should be added to the proposed definition of an economic resource included in the DP. EFRAG has not reached a consensus on this issue. This draft comment letter therefore sets out two different views of the members of the EFRAG Technical Expert Group and asks constituents for their comments.

View 1 – 'to the entity' should be added to the proposed definition of an economic resource

View 2 – 'to the entity' should not be added to the proposed definition of an economic resource

Which, if any, of the views presented above do you support, and why? If you do not support any of the views, what is your view on the proposed definition of an economic resource included in the DP?

- 1 We think (i) the "control" aspects for assets, (ii) the notion of "past event", and (iii) the entity aspect should be addressed and explained as part of recognition aspects in the revised *Conceptual Framework* separately and should not be included as part of the asset and liability definitions. We think separating a broader definition of assets and liabilities from recognition criteria is more understandable and in our view more consistent with the discussion about derecognition criteria in the DP. Thus, we disagree with the current proposals in the DP because we think it would be more useful and consistent not to commingle recognition aspects with generic asset and liability definitions.
- 2 We support EFRAG's consideration for further clarification about the entity aspect relating to future economic benefits. However, this should be discussed in context of recognition and should not be part of the definition as proposed in EFRAG's View 1.



Uncertainty aspects and probability thresholds

EFRAG's questions to constituents

Do you think it is useful to distinguish between existence uncertainty and outcome uncertainty? Please explain. Do you agree with the DP that existence uncertainty is rare?

EFRAG has not reached a consensus on whether the *Conceptual Framework* should include probability thresholds related to the probability of inflows and outflows ('probability thresholds'). This draft comment letter therefore sets out two different views of EFRAG TEG members and asks constituents for their comments.

View 1 – Probability thresholds should be included in the *Conceptual Framework*

View 2 – The *Conceptual Framework* should not include probability thresholds

Which, if any, of the views presented above do you support, and why? If you do not support any of the views, what is your view on the proposal included in the DP on recognition?

- 3 Generally, we think it is conceptually sound to distinguish between existence uncertainty and outcome uncertainty. Existence uncertainty addresses the aspect of whether an asset or a liability exists; outcome uncertainty is closely linked to measurement aspects.
- 4 Nevertheless, we do not agree with the wording in the DP that only in some rare cases it is unclear whether an entity has an asset or a liability. We think the revised *Conceptual Framework* should not use this wording. Instead we believe the revised *Conceptual Framework* should emphasise that the aspect of existing uncertainty could be significant in particular Standards and that probability thresholds should be considered by the IASB as an appropriate mechanism to operationalise professional judgement whether a present obligation or an economic resource exists, i.e. is present. Our view is similar to the argumentation expressed in paragraph 2.22 (c) in the DP.
- 5 Besides the fact that we believe probability thresholds represent an appropriate mechanism to operationalise professional judgement in particular projects for developing or revising IFRSs if existing uncertainty is significant, we support IASB's preliminary view to remove the probability threshold as a general recognition criteria.



Business model

EFRAG's questions to constituents

Do you support EFRAG's tentative position on the implications of the business model for *Conceptual Framework*, expressed in paragraphs 412-423? If not, please explain your reasoning.

- 6 We have some reservations regarding the views expressed in paragraphs 412-423 in EFRAG's Draft Comment Letter. In this context we refer to our answer to Question 23 in our comment letter to the IASB.



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Berlin, 14 January 2014

Dear Hans,

IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Discussion Paper DP/2013/1 (herein referred to as the 'DP'). We appreciate the opportunity to comment on the DP and provide our answers to the specific question in the DP in the Appendix attached to this letter.

We believe the *Conceptual Framework* has a significant role in the development of a single set of high quality, understandable, enforceable and globally accepted financial reporting standards and therefore the review project is of great importance to us. In this context we have been engaging in joint activities with other European national standard-setters and EFRAG to promote the necessary debate about changes in the *Conceptual Framework*. We are pleased and appreciate the fact that the outcome of these activities in form of Bulletins have been subject to the Board's discussion and consultation process.

Because the project is of great importance to us, we would like to convey our general remarks about the project objective and IASB's due process activities as follows:

Scope and outcome of the project

We mainly support the scope of the review efforts and IASB's decision to build on the existing *Conceptual Framework* - updating, improving and filling gaps rather than fundamentally reconsidering all aspects of the *Conceptual Framework*. We understand that the project will result in amendments to the current *Conceptual Framework* and the IASB will start using the revised *Conceptual Framework* immediately once it is finalised.



We believe some of the preliminary views and ideas would result in significant shifts in accounting if consistently implemented across all IFRSs. Hence, a revised *Conceptual Framework* version will raise questions about consequences for existing IFRSs. We have the impression that for some issues addressed in the DP the IASB may consider starting immediately follow-up projects to implement changes arising from the clarification and additions to the *Conceptual Framework*. In other parts of the document the DP repeatedly highlights that a revised *Conceptual Framework* will not necessarily lead to changes to existing IFRSs and that any proposal to change an existing Standard or Interpretation would need to go through the IASB's normal due process. In addition, some IFRSs – e.g. IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* - require the application of the *Conceptual Framework*. Therefore, the revised *Conceptual Framework* may have an immediate impact for preparers, e.g. modified definition and recognition of assets, liabilities, income and expenses (IAS 1.15).

Nevertheless, we agree with the IASB's view that immediate changes to existing IFRSs are not desirable in light of the potential instability instead of having a stable platform for financial reporting. Thus, changing the *Conceptual Framework* should not automatically trigger immediate changes to existing IFRSs. However, we strongly believe that the objective and project efforts to revise the *Conceptual Framework* should ultimately result in consistency of requirements across all IFRSs. We think consistency across IFRSs is of fundamental importance and should be considered as a key driver for the project efforts to improve financial reporting. Therefore, we think the IASB needs to develop a strategy and impact assessment for addressing the potential consequences and implications of a revised *Conceptual Framework* to existing IFRSs. Ideally this kind of information should already be part of the Exposure Draft of a revised *Conceptual Framework*. Otherwise, there should be a timely evaluation process with a thorough assessment by the IASB whether and when some framework changes should be implemented in IFRS. The outcome of this evaluation process for existing IFRSs and the IASB's strategy to achieve consistency across IFRS's should be published. As a next step, the IASB should address the consequences and implications of the revised *Conceptual Framework* to existing IFRSs in its next Agenda Consultation with corresponding questions to constituents about the future work agenda.

Overall, as a revision of the *Conceptual Framework* will probably include a number of new, untested concepts, Standards based on these new ideas need to be monitored closely. Ideally, the IASB should address issues arising from the newly introduced concepts in the *Conceptual Framework* on a timely basis to reduce the risk of (re-)introducing inconsistencies and exceptions. The IASB should also clarify the impact of the *Conceptual Framework* review for IFRS requirements that include references to the *Conceptual Framework*, especially IAS 1.15 and IAS 8.11-12.



Timing of the project steps

We have some concerns with the IASB's view relating to the progress and timing of the project. We understand the intention and benefits to revise the *Conceptual Framework* in a single phase rather than spreading the discussion into separate phases. Nevertheless, we think there are some fundamental overarching concepts that should be clarified before continuing the discussion on other conceptual issues. For example we think clarifying the concept of the reporting entity and more important the perspective of presenting financial statements is of absolute necessity before debating ensuing issues such as the definition of assets and liabilities and equity.

Furthermore, we have concerns regarding the ambitious plan to finalise the revision by the end of 2015. We have the impression that the IASB postponed some more in-depth discussions when preparing the DP. In our view the revision of the *Conceptual Framework* is of great importance for the future development of consistent IFRSs and there should be no rush in order to keep artificial timelines.

If you would like to discuss our general remarks and our detailed comments enclosed in the Appendix further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President



Appendix – Answers to the questions of the discussion paper

Reporting entity and perspective of preparing financial statements

Before answering the specific questions we highlight our concern that the IASB did not discuss the reporting entity issue and the perspective of preparing financial statements in the DP. We acknowledge the fact that the IASB had already published an Exposure Draft in 2010. However, we do not agree with the conclusion that it was unnecessary to re-discuss the concept of the reporting entity and the perspective of financial reporting. We believe those high-level concepts are of fundamental importance.

Particularly - as expressed in our previous comment letter on the Exposure Draft ED/2010/2 *Conceptual Framework Financial Reporting: The Reporting Entity* - we consider a thorough discussion of the perspective of presenting (consolidated) financial statements to be crucial. Previous discussions (e.g. within the project 'Business Combinations') as well as the academic literature have already made clear that different views and diverse interpretations exist (such as the proprietary perspective, entity perspective or economic unit concept). Therefore we encourage the IASB to address the issue in the Exposure Draft.

IASB DP - Question 1: Section 1 Introduction

Paragraphs 1.25–1.33 of the DP set out the proposed purpose and status of the *Conceptual Framework*. The IASB's preliminary views are that:

- (a) the primary purpose of the revised *Conceptual Framework* is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and
- (b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the *Conceptual Framework*. If this happens the IASB would describe the departure from the *Conceptual Framework*, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

Generally, we agree with most of the preliminary views regarding the purpose and the status of the *Conceptual Framework*. We think the primary purpose of the *Conceptual Framework* is to assist the IASB when developing and revising IFRSs and to achieve the continuity of agreed concepts, assumptions, and objectives for financial reporting, despite turnover of IASB members and its staff.



We believe the *Conceptual Framework* should retain its important role for constituents, especially for preparers as an authoritative guidance in absence of specific guidance in IFRSs as it is currently implemented through IAS 8. Thus, we have concerns and disagree with the IASB's intention that according to paragraph 1.29 in the DP "some aspects of the *Conceptual Framework* are intended only for the IASB's use as it develops new or revised IFRSs".. We think there is no conceptual ground for such a proposal but it rather indicates weakness of particular concepts and definitions in the *Conceptual Framework*. We strongly discourage the IASB to proceed with the idea that some parts of the *Conceptual Framework* should be considered as "IASB only" guidance.

The *Conceptual Framework* should be considered as the common starting point for the IASB when developing or revising IFRSs and any conceptual exceptions in IFRSs and their justification need to be stated explicitly. . We believe it is important to emphasise in the revised version of the *Conceptual Framework* that it presents an important tool to achieve consistency across IFRSs.

Additionally, we think the IASB needs to address the implications of a revised *Conceptual Framework* for existing IFRSs. Especially, we believe the IASB needs to clarify the role of the revised *Conceptual Framework* for the work of the IFRS Interpretations Committee when developing interpretations of IFRSs that were developed based on a potentially different *Conceptual Framework*.

We note that the IASB considers the proposed revision not being a fundamental rethink; however, in our view some of the preliminary views present significant changes from existing framework guidance and accounting principles in current IFRSs. Therefore, we strongly urge the IASB to clarify its intention and plans whether and when the current IFRSs should be reviewed in light of any *Conceptual Framework* amendment. We believe it is not desirable to revise the *Conceptual Framework* without clarification whether the amendments are (in)consistent with existing IFRSs. Therefore, we propose the IASB should carry out and publish an impact assessment for all existing IFRSs leading to potential future projects to be addressed in its next Agenda Consultation.



IASB DP - Question 2: Elements of financial statements

The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16 of the DP. The IASB proposes the following definitions:

- (a) an asset is a present economic resource controlled by the entity as a result of past events.
- (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

We acknowledge the intention to clarify the meaning of assets and liabilities in the statement of financial position. Nevertheless, in our view it is necessary to stress the distinction between the definition and recognition aspects in the *Conceptual Framework*. Thus, we disagree with the current proposals in the DP because we think it would be more useful and consistent not commingling recognition aspects with the general, and broader definition of assets and liabilities. We think separating a broader definition of assets and liabilities from recognition criteria is more understandable and more consistent with the discussion about the derecognition criteria in the DP. Therefore we propose to exclude from the asset and liability definitions:

- (i) the control notion;
- (ii) the notion of past event; and
- (iii) the entity aspect

Those issues should be discussed in the revised *Conceptual Framework* in more detail in the context of recognition and derecognition.

Furthermore, we note differences in wording between Section 2 and Section 4 in the DP regarding the description/definition of an asset. The IASB refers in Section 4 to “components” of an asset or multiple rights, while the definition in Section 2 refers only to a single right or other source of value. In our view, this inconsistency reflects the need to address more thoroughly the link between the asset and liability definition and the unit of account. We believe the discussion and views expressed in the DP remain ambiguous ; we refer to our answer to Question 24 regarding the unit of account issue.



IASB DP - Question 3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36 of the DP.

The IASB's preliminary views are that:

- (a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.
- (b) the *Conceptual Framework* should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.
- (c) the recognition criteria should not retain the existing reference to probability.

Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

It is not clear to us, whether the notion of "capable" implies some limitations or a certain degree of threshold. We think the proposed definition would be equal to the following wording: An economic resource is a right or other source of value that may produce future economic benefits. Thus, the IASB should consider removing the term "capable" or it should provide some examples and scenarios where a right or other source of value is not "capable" of producing economic benefits.

Regarding IASB's preliminary view for Question 3c, we generally agree not to retain the existing reference to probability as a general recognition criterion in the revised *Conceptual Framework*. But more important, we disagree with IASB's argumentation and the preliminary view expressed in context of Question 3b for existence uncertainty. Particularly we do not agree with the wording that existence uncertainty whether the entity has an asset or a liability does only exist in "rare" cases. Furthermore we believe the revised *Conceptual Framework* should include high-level guidance and indication how the IASB could deal with that type of uncertainty in particular standards. We propose the revised *Conceptual Framework* should state that probability thresholds could be considered as an appropriate mechanism in particular Standards to operationalise professional judgement whether a present obligation or an economic resource exists, i.e. to operationalise existence uncertainty.

IASB DP – Question 4

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contribu-



tions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52 of the DP.

Do you have any comments on these items? Would it be helpful for the *Conceptual Framework* to identify them as elements of financial statements?

We do not think that an exhaustive enumeration of elements is particularly helpful without adding further information why these elements are conceptually important for assisting the IASB when developing or revising IFRSs. Hence, we believe it would be helpful to provide the definitions for these elements (as listed in Question 4). The definition should also clarify the conceptual distinction between income and expenses, wealth transfers, and contributions from or distribution to equity participants. In this context we propose to emphasise that the definitions of income and expense build upon the definition of assets, liabilities and changes in equity.

IASB DP – Question 5: Section 3 Additional guidance to support the asset and liability definition

Constructive obligations are discussed in paragraphs 3.39–3.62 of the DP. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations – and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50 of the DP.

Do you agree with this preliminary view? Why or why not?

We agree with the preliminary view for the reasons given in the DP. Furthermore, we support adding more high-level guidance in the revised *Conceptual Framework* to distinguish constructive obligations from economic compulsion.



IASB DP – Question 6

The meaning of ‘present’ in the definition of a liability is discussed in paragraphs 3.63–3.97 of the DP. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity’s future actions. Three different views on which the IASB could develop guidance for the *Conceptual Framework* are put forward:

- (a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.
- (b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.
- (c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity’s future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

Generally, we believe new or revised IFRSs should not move towards View 3 because we are concerned about the degree of flexibility and complexity inherent in such an approach where the past event is sufficient to create a present obligation. We think in some cases it would be very difficult to determine the past event and therefore in our view consistent application would not be possible with View 3.

We believe the strength of View 1 is based on the fact that it is not difficult to operationalise the approach in comparison to View 2 or View 3. However, we agree with IASB’s discussion and description of issues relating to View 1. Therefore, we believe the revised *Conceptual Framework* should not reflect View 1 but lean towards View 2 with more clarification regarding the meaning of “practically unconditional”. We encourage the IASB to develop criteria in the *Conceptual Framework* that could be used as guidance when to conclude the existence of “practically unconditional” compared to “strictly unconditional”. Furthermore, the IASB should provide more information regarding the understanding of the “past event”. We think the notion remains very vague and is open to very different interpretations, especially for contingent considerations.



Because everything can be traced back to a past event, there should be more clarification in the revised *Conceptual Framework*.

The IASB could also explore whether different wording would be more appropriate to describe the underlying assumption of View 2. For example, we think the notion of “no realistic alternative” to avoid transfer of economic resources may be a better depiction of View 2 and that terminology is already used in current IAS 19 *Employee Benefits* in the context of constructive obligations.

More generally, we question why the issue regarding the timing of existence is addressed only for liabilities in the DP but not discussed for assets and for some classes of equity, i.e. obligations to issue own shares.

IASB DP – Question 7

Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?

We do not have any further comments regarding the asset and liability definitions in the DP. Nevertheless, we refer to our answer to Question 8 where we address our concerns relating the control notion discussed in Section 3 in the DP as part of additional guidance to support the asset and liability definitions.

IASB DP – Question 8: Section 4 Recognition and Derecognition

Paragraphs 4.1–4.27 of the DP discuss recognition criteria. In the IASB’s preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because:

- (a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or
- (b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

We agree with the proposals for the reasons given in the DP, except for the fact that some aspects of the proposed asset and liability definitions should be considered as recognition criteria



in the revised *Conceptual Framework* and not be addressed within the broader asset and liability definitions. In this context we also refer to our answer to Question 2.

Furthermore, we note the discussion in the DP about the difference between the control notion defined in IASB's *Exposure Draft Revenue from Contracts with Customers* vs. the concept of control used in IFRS 10 *Consolidated Financial Statements*. In our view a variety of control approaches for IFRSs is not helpful and undesirable.

IASB DP – Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51 of the DP, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

- (a) enhanced disclosure;
- (b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk;
or
- (c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

Generally, we agree with the preliminary view for the reasons given by the IASB in the DP. However, the IASB should not describe its preliminary view as a “control approach”. We think this terminology is confusing because the control aspect only applies to the derecognition of assets. Furthermore, the IASB describes in the DP the control approach for derecognition as follows:

“derecognition is simply the mirror image of recognition. Thus, an entity would derecognise an asset or a liability when it no longer meets the criteria for recognition (or no longer exists, or is no longer an asset or a liability of the entity). This implies that the derecognition criteria for an asset would focus on the control of the asset (rather than on legal ownership or on risks and rewards) and the derecognition criteria for a liability would focus on whether the entity still has the liability.”



In our view the description above used in the DP supports our proposal to address the control notion and the entity aspect as part of recognition and derecognition criteria in the revised *Conceptual Framework*.

Additionally, in light of clarification we think it is important to emphasize that the transfer of all risk and rewards would result in the loss of control. Differences between the control approach and the risk-and-reward approach would only occur if the entity retains a component that exposes the entity disproportionately to the remaining risks or rewards arising from the previously recognised asset or liability as stated in paragraph 4.36 in the DP.

As another aspect, we believe additional high-level derecognition guidance in the revised *Conceptual Framework* would be beneficial to address scenarios in which an entity is selling an asset but immediately repurchases a similar asset. Other scenarios include the modification of contractual agreements. We observe that such modification scenarios for assets and liabilities often raise questions in practice whether such transactions would require derecognition. We note the discussion in paragraphs 4.34-4.49 in the DP and would encourage the IASB to develop more guidance in the *Conceptual Framework* regarding the selection of a specific recognition approach.

IASB DP – Question 10: Section 5 Definition and distinction between liability and equity elements

The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1-5.59 of the DP. In the IASB's preliminary view:

- (a) the *Conceptual Framework* should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.
- (b) the *Conceptual Framework* should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:
 - (i) obligations to issue equity instruments are not liabilities; and
 - (ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a) of the DP).
- (c) an entity should:
 - (i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure or an allocation of total equity.
 - (ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.



(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.

Do you agree? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the IASB's preliminary view not to change the existing definition of equity in the *Conceptual Framework*, i.e. 'equity' is the residual interest in the assets of the entity after deducting all its liabilities.. Therefore, we generally support the strict obligation approach as discussed in the DP. Nevertheless, we reemphasise the necessity to clarify the perspective of presenting financial statements and the definition of the reporting entity because it provides the conceptual meaning of equity in accordance with IFRSs.

We generally agree with the IASB's preliminary view that the depiction of the wealth transfers between existing shareholders and option holders presents useful information for users, i.e. the value movements within equity between primary and secondary equity claim holders. However, we think it would be necessary to emphasise that these movements do not reflect a comprehensive depiction of all wealth transfers between different classes of equity holders unless all classes of equity holders are directly measured at current value. We do not support the direct measure for all classes of equity. The IASB should clarify that only secondary equity claims as described in the DP should be eligible for a direct measure.

We also agree with the conclusion in the DP that the strict obligation approach would resolve existing inconsistencies between IFRS 2 and IAS 32 and result in less complexity in IAS 32 requirements. However, the consequential requirements to remeasure all share-based payments, including all non-cash settled employee stock options, at the end of each reporting period may result in more burden for some entities. In fact, pricing options for unlisted entities would require a direct measure of the value of the entity, i.e. entity valuation, at the end of each reporting period.

Furthermore, we are supportive of the preliminary view that if an entity has issued no equity instruments, it may be appropriate having an exception from the strict obligation approach with suitable disclosures. The DP states that the narrow equity approach may underlie some of such exceptions in IAS 32 that were introduced by the IASB in the past. Beside the fact that we do not agree with the narrow equity approach in general, we are also not supportive of a narrow equity approach as described in the DP as the conceptual basis for such exceptions.

Generally, we believe that a narrow equity approach based on the most residual class of financial instruments is not a practicable approach for reporting consolidated financial statements



because we question the conceptual rationale of “most residual” class of financial instruments in context of a consolidated group of entities. However, limiting the most residual class to financial instruments issued by the parent as discussed in the DP raises another concern that non-controlling interests (NCI) do not qualify in any cases as equity claims in consolidated financial statements. We note footnote #44 of the DP and the indication that a variant of the narrow equity approach might classify NCI as equity. However, in our view this footnote is inconsistent with the general definition of the narrow equity approach as described in the DP that only equity instruments issued by the parent are eligible to qualify as most residual class. We strongly believe that the development of exceptions should not be limited to instruments issued by the parent but should also enclose NCI classified as equity in separate or individual financial statements.

IASB DP – Question 11: Section 6 Measurement

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35 of the DP. The IASB’s preliminary views are that:

- (a) the objective of measurement is to contribute to the faithful representation of relevant information about:
 - (i) the resources of the entity, claims against the entity and changes in resources and claims; and
 - (ii) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.
- (b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;
- (c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;
- (d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
 - (i) for a particular asset should depend on how that asset contributes to future cash flows; and
 - (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.
- (e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and



- necessary measurement changes should be explained; and
- (f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

In our view the discussion in the DP represents noticeable improvements compared to the measurement guidance in the current *Conceptual Framework*. We support the concept that selection of a measurement for a particular asset should depend on how that asset contributes to future cash flows; and for a particular liability should depend on how the entity will settle or fulfil that liability. Nevertheless, we have some reservations regarding the proposed measurement objective. The objective seems to us a replication of the general objective of financial reporting. We do not think this objective will be very useful and of any help for the IASB when developing or revising IFRSs.

Furthermore, we believe the reliability aspect of measurement is important and should be highlighted in the revised *Conceptual Framework* regarding the selection of measurement. While we agree with removing reliability as a general recognition criterion, we think this concept is still important for choosing the measurement attribute. From the DP it is not clear to us whether the IASB shares our view.

IASB DP – Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73 – 6.96 of the DP. The IASB's preliminary views are that:

- (a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.
- (b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.
- (c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.
- (d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.



We generally agree with the implications addressed for the subsequent measurement in the DP. Additionally, we think it is necessary for the revised *Conceptual Framework* to include high-level guidance when the measurement for an asset or a liability should change. That guidance should help to understand the consequences of the proposed implications to existing IFRSs. For example, some IFRSs, especially the measurement requirements for finished goods in IAS 2 *Inventories* and the measurement requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* seem to be inconsistent in large parts with these preliminary views expressed in the DP. Thus, it is not clear to us whether these views would reflect the IASB's intention changes to the subsequent measurement requirements in IAS 2 and IFRS 5.

Furthermore, we think the revised *Conceptual Framework* should also expand on the implications of the selection of the initial measurement attribute. For example, in our view the DP does not address sufficiently the conceptual basis for the different accounting treatment of cost arising subsequent to the acquisition depending on the type of initial measurement (i.e. cost based vs fair value).

IASB DP – Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109 of the DP. The IASB's preliminary views are that:

- (a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
- (b) a cost-based measurement will normally provide the most relevant information about:
 - (i) liabilities that will be settled according to their terms; and
 - (ii) contractual obligations for services (performance obligations).
- (c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

We support the preliminary views for the reasons given in the DP.

IASB DP – Question 14

Paragraph 6.19 of the DP states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the as-



set contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

- (a) if the ultimate cash flows are not closely linked to the original cost;
- (b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or
- (c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).

Do you agree with this preliminary view? Why or why not?

We support the preliminary view for the reasons given in the DP.

IASB DP – Question 15

Do you have any further comments on the discussion of measurement in this section?

We believe more guidance is necessary in the revised *Conceptual Framework* regarding the use of the discount rate in cash-flow-based measurements. We are aware of the fact that the IASB has a corresponding project on its research agenda. Nevertheless, we believe – in reflection of the very different approaches in existing IFRS - the revised *Conceptual Framework* should at least contain high-level guidance regarding the question whether the discount rate should reflect any form of risk and if so, the type of criteria for considering the risk.

IASB DP – Question 16: Section 7 Presentation and disclosure

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the *Conceptual Framework*. In developing its preliminary views, the IASB has been influenced by two main factors:

- (a) the primary purpose of the *Conceptual Framework*, which is to assist the IASB in developing and revising Standards (see Section 1); and
- (b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8 of the DP), including:
 - (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;



- (ii) amendments to IAS 1; and
- (iii) additional guidance or education material on materiality.

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the *Conceptual Framework* on:

- (a) presentation in the primary financial statements, including:
 - (i) what the primary financial statements are;
 - (ii) the objective of primary financial statements;
 - (iii) classification and aggregation;
 - (iv) offsetting; and
 - (v) the relationship between primary financial statements.
- (b) disclosure in the notes to the financial statements, including:
 - (i) the objective of the notes to the financial statements; and
 - (ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the *Conceptual Framework*.

Generally, we agree with the preliminary views expressed in the DP. We think the guidance in the *Conceptual Framework* would be even more useful if it contained a more comprehensive discussion about the boundaries of financial reporting. It still remains unclear to us whether and how the IASB draws the line between information presented in the financial statements and disclosure of other financial information that is considered to be part of management commentary and other parts of financial reporting. Thus, we strongly believe the IASB has to clarify these boundaries in the revised *Conceptual Framework*.

Furthermore, if the IASB has the intention to include the list of primary financial statements in the revised *Conceptual Framework*, we encourage the IASB to provide a clear and useful depiction what each statement should communicate to users, i.e. to explain the purpose and role of each statement.

Overall, we think the IASB should prioritise its efforts to improve presentation and disclosures for IFRSs. We believe financial reporting in accordance with IFRS have become less understandable and comparable for the users and a more structured approach for setting presentation and disclosure requirements is needed.



Paragraph 7.45 of the DP describes the IASB's preliminary view that the concept of materiality is clearly described in the existing *Conceptual Framework*. Consequently, the IASB does not propose to amend, or add to, the guidance in the *Conceptual Framework* on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the *Conceptual Framework* project.

Do you agree with this approach? Why or why not?

We believe that the concept of materiality is clearly and consistently understood as an entity-specific aspect of relevance. We acknowledge that the concept of materiality is based on quantitative as well as qualitative judgement in regard to the size and nature of the item, omission or misstatement. Also, specific facts and circumstances have to be taken into consideration for this judgement. Therefore, the concept of materiality will, by definition, result in some divergence in practice without negatively impacting the relevance of the information provided.

Because the primary purpose of the revised *Conceptual Framework* is to assist the IASB in identifying concepts that it will use consistently when developing and revising IFRSs, we agree with the view that - if considered to be useful - additional application guidance about materiality could be developed but should not be added to the *Conceptual Framework*. However, we encourage and support any efforts by the IASB in the *Conceptual Framework* that would result in a more understandable and consistent way of using terms such as "significant", "key", "critical", "important", "as a minimum" in future IFRSs. The variety and different use of these different terms across IFRSs is not beneficial and provides room for different interpretations.

IASB DP – Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 of the DP when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52 of the DP.

Do you agree that communication principles should be part of the *Conceptual Framework*? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

Overall, we agree with the IASB's intention to include general presentation and disclosure concepts in the revised *Conceptual Framework*. These high-level concepts should especially ensure the development of consistent and balanced disclosures across IFRSs.



Relating to the listed communication principles, we do not fully understand from the DP how the IASB will operationalise these communication principles when it develops or amends disclosure guidance in IFRSs. Beside the fact that we think “communication principles” is not the appropriate term for such high-level presentation and disclosure concepts, we think the IASB needs to clarify the relation between those communication principles and qualitative characteristics of useful financial information as listed in Chapter 3 of the *Conceptual Framework*. Many of the communication principles appear to be very similar to the requirements listed in Chapter 3. Hence, we think the IASB should better demonstrate how it considers using these principles, i.e. how these principles will provide additional assistance to the standard-setting process. Furthermore, we think the IASB needs to review carefully the wording and terms used within these principles. We may foresee questions arising from using similar but different terms for the communication principles compared to the qualitative characteristics of financial information in Chapter 3 of the *Conceptual Framework*, e.g. balanced vs. neutral, important vs. relevant, and clear vs. faithful.

IASB DP – Question 19: Section 8 Presentation in the statement of comprehensive income – profit or loss and other comprehensive income (OCI)

The IASB’s preliminary view that the *Conceptual Framework* should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22 of the DP.

Do you agree with this preliminary view? Why or why not? If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?

We agree with the view to require a total or subtotal for profit or loss. In our view profit or loss should present faithfully the “performance for the period”. We refer to our answer to Question 21 regarding the items of income and expense that should not be considered as part of the performance for the period, but should be part of other comprehensive income.

IASB DP – Question 20

The IASB’s preliminary view that the *Conceptual Framework* should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss; i.e. recycled, is discussed in paragraphs 8.23–8.26 of the DP.

Do you agree with this preliminary view? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?



We think all items of income and expense presented in OCI should be recycled because profit or loss should present the performance of the entity.

IASB DP – Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in the OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78 of the DP) and a broad approach (Approach 2B described in paragraphs 8.79-8.94 of the DP).

Which of these approaches do you support, and why?

If you support a different approach, please describe that approach why do you believe it is preferable to the approaches described in this Discussion Paper.

We acknowledge the efforts in the DP to explore a more conclusive depiction of what is considered to be performance through the meaning of profit or loss and what components belong to OCI. We generally agree with IASB's preliminary view in the DP that the use of OCI should be limited to items of income or expense resulting from changes in current measures of assets and liabilities (remeasurements).

Nevertheless, we have the impression the two approaches discussed in the DP represent an effort to justify more or less the existing accounting guidance in current IFRSs in the context of OCI. We are not convinced that this is a suitable approach to address the issue about the distinction between profit or loss and OCI and we question the conceptual robustness of both approaches discussed in the DP. For example, in context of bridging items the DP states that the IASB may "occasionally" decide that an asset or a liability should be remeasured, but that information in profit or loss should be based on a measurement that differs from the one used in the statement of financial position. The conceptual reasons for the occasional decision remain very vague in the DP and we believe a more fundamental rethinking is necessary to form a clear view.

In reflection of our reservation about the two approaches discussed in the DP, we think a more promising approach to address the distinction between profit or loss and OCI would be the development of an approach based on a combination/mix of attributes that are discussed in paragraph 8.37 in the DP. We believe the combination of "unrealised" gains or losses arising from "long-term" contracts with a reasonable chance to reverse over the remaining time of the contract may be a starting point to determine information to be eligible for presentation in OCI.



IASB DP – Question 22: Section 9 Other issues

Paragraphs 9.2–9.22 of the DP address the chapters of the existing *Conceptual Framework* that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the *Conceptual Framework* highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the *Conceptual Framework*.

Generally we agree with the proposed approach. We think that changes to these revised chapters need to be based on evidence of unintended consequences or should reflect new issues that the IASB did not discuss before.

Relating to the discussion about stewardship, we believe that the IASB adequately addressed the importance and the role of accountability/stewardship in its 2010 *Conceptual Framework*. Furthermore, we acknowledge the frequent references to stewardship in the DP. We are concerned that new amendments to the objective of financial reporting will bring more questions and reopen the issues the IASB addressed with the changes introduced in 2010. We do not think that the IASB neglected the importance of stewardship aspects since 2010 when developing or revising IFRSs. Furthermore, we think the standard-setting process on the basis of competing primary objectives would be ambiguous.

Similarly to the stewardship issue, we question the resurrection of prudence and reliability without having clear evidence that the changes introduced in 2010 to the *Conceptual Framework* resulted in new or revised IFRSs causing imprudent and/or unreliable financial information. In our view the IASB should undertake educational efforts to illustrate the potential risk of reintroducing these concepts and reemphasize the arguments for the decisions made in 2010.

Furthermore, in our view the IASB could clarify two issues:

- How does the IASB address the neutrality requirement relating to accounting estimates when developing or revising IFRSs to rein any propensity for optimism by management?
- Whether existing IFRS requirements, such as recognition of impairment and accounting for onerous contracts, were developed on the basis of prudence in the past. Many believe these accounting requirements are outcome of the concept of prudence and reflect the necessity of disparity treatment for assets and liabilities.



IASB DP – Question 23: Business Model

The business model concept is discussed in paragraphs 9.23–9.34. This DP does not define the business model concept. However, the IASB’s preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define ‘business model’? Why or why not? If you think that ‘business model’ should be defined, how would you define it?

Generally, we are supportive of the view that the IASB should consider the economic nature and substance of the entity’s business activities, including the reflection of the entity’s business environment, when developing or revising particular Standards to provide relevant information to users. We think the preliminary views developed in the DP regarding the selection of measurement, i.e. selection of measurement for assets and liabilities depending on their contribution to future cash flows, reflect a good example for such a standard-setting approach. Therefore, we think the revised *Conceptual Framework* could highlight that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

We would be concerned about an explicit reference to the business model without clarifying implications for developing or revising IFRSs; we are not yet convinced that such a reference would strengthen the conceptual robustness of the *Conceptual Framework*, specifically as there is no common understanding of what a business model constitutes.

Furthermore, we understand that those who are in favour of adding the business model concept to the *Conceptual Framework* think the business model notion is in-line with the qualitative characteristics of useful financial information in section 3 of the *Conceptual Framework*. However, taking this view it can be argued that the core idea of the business model is already covered by qualitative characteristics, i.e. relevance and faithful representation.

Additionally, we are concerned about scenarios where constituents refer to using a business model notion to avoid unpopular accounting requirements, i.e. to consider the business model as an overruling concept in relation to other concepts in the *Conceptual Framework*. In our view a reference in the *Conceptual Framework* to the business model notion should not lead the development of industry-specific accounting requirements.



IASB DP – Question 24: Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

In the context of the discussion about the definition of assets and liabilities it is fundamentally important to address the basis for the identification, i.e. the unit of account issue. We note that the IASB is proposing to deal with this question on an individual Standard level. We disagree with this view and would encourage the IASB to set more conceptual guidance on the issue in the revised *Conceptual Framework*. We emphasise the so far conceptually unanswered questions raised in the IASB's leases project for carving out a particular right from the bundle that make up an asset and recognising it separately whilst not doing the same for other individual rights, e.g. voting right and right to receive dividends for a shareholder.

Therefore, we do not agree with the IASB's preliminary view that the unit of account will normally be decided when the IASB develops or revises particular Standards. Instead, the revised *Conceptual Framework* should state that normally the unit of account reflects the individually identifiable economic resource or the individually identifiable obligation to transfer an economic resource. We think such a common starting point for developing recognition, measurement and disclosure requirements is needed. In cases where a portfolio approach should be used, the IASB should provide an explanation of the reasons.

We generally agree that there may be transactions or events where the unit of account needs to be different. However, in such exceptional cases the IASB should explain why a departure from the default approach is necessary.

IASB DP – Question 25: Going concern

Going concern is discussed in paragraphs 9.42–9.44 of the DP. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?



In our view the going concern assumption has also a relevant role in the context of presentation. For example the distinction between current and non-current line items in the statement of financial position interrelates in some scenarios with the going concern assumption.

IASB DP – Question 26: Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54 of the DP. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised *Conceptual Framework* largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

We agree with IASB's plan for the reasons given in the DP.