

IFRS Foundation
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commentletters@ifrs.org

10 November 2015

Dear Sirs,

Exposure Draft - Conceptual Framework for Financial Reporting

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to this consultation. We have a few comments on particular points as explained in detail in response to specific questions.

Responses to specific questions

<p>Q1—Proposed changes to Chapters 1 and 2</p> <p>Do you support the proposals:</p> <p>(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;</p> <p>(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;</p> <p>(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;</p> <p>(d) to clarify that measurement uncertainty is one</p>	<p>(a) We welcome the reference given to stewardship. However, we consider that its importance merits greater emphasis. In our opinion, providing the information needed to assess management’s stewardship of the entity’s resources is a primary aim of financial reporting and the Conceptual Framework should reflect this accordingly.</p> <p>(b) We welcome the reference to the notion of prudence. However, we find the description within 2.18 to be highly confusing as the concepts of prudence and neutrality would not normally be equated. Greater clarity is required and consideration should be given as to whether neutrality is the appropriate description to use.</p> <p>(c) We support this proposal.</p> <p>(d) We support this proposal.</p>
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<p>factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and</p> <p>(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information? Why or why not?</p>	<p>In our opinion, faithful representation does not fully capture the characteristics of reliability and as such, reliability should be reinstated as a fundamental characteristic. In particular, reliability includes the notion that the information ‘can be depended upon by users’ and to have such a reference within a fundamental characteristic would help inform both entities and the IASB’s thinking in respect of the use of Level 3 fair value measurements. These can faithfully represent values but we would question their reliability.</p>
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<p>Q2—Description and boundary of a reporting entity</p> <p>Do you agree with:</p> <p>(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and</p> <p>(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?</p> <p>Why or why not?</p>	<p>We agree with the description and boundary of a reporting entity. However, paragraph 3.6 should be expanded to include the Cash Flow Statement. This is of fundamental importance to investors and should be given the necessary prominence in the Conceptual Framework.</p>
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<p>Q3—Definitions of elements</p> <p>Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):</p> <p>(a) an asset, and the related definition of an economic resource;</p> <p>(b) a liability;</p> <p>(c) equity;</p> <p>(d) income; and</p> <p>(e) expenses?</p> <p>Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?</p>	<p>Further work is needed to ensure that the definitions provide a suitable basis for the Conceptual Framework. In particular we are disappointed that there is no definition given for ‘revenue’ or ‘profit’ despite the fact that these are key metrics within most companies’ accounts.</p> <p>The definitions of elements should help define the statement of profit or loss and the statement of comprehensive income. As currently defined the elements are too focused on balance sheet elements and hence do not give the necessary conceptual underpinning for the statement of profit or loss and the statement of comprehensive income.</p> <p>Given that the Conceptual Framework aims for the statement of profit of loss to be the primary source of information about an entities financial performance we believe this failing should be rectified. Particular consideration should be given as to whether it is appropriate to define income and expense as merely the difference between the opening and closing balance sheets or whether alternative definitions should be given which revolve around an entity’s business model. Under this definition, inflows and outflows which arise from the business model should be classified within income and profit and other movements should be</p>
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	<p>recognised within other comprehensive income. Such a direct link back to the business model should result in companies making fewer adjustments to their reported results when discussing them with analysts, as our members frequently have to do.</p>
<p>Q4—Present obligation Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?</p>	<p>We agree with the proposed description.</p>
<p>Q5—Other guidance on the elements Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.</p>	<p>We have no other comments.</p>
<p>Q6—Recognition criteria Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?</p>	<p>We agree with the proposed approach.</p>
<p>Q7—Derecognition Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?</p>	<p>We agree with the discussion of derecognition.</p>
<p>Q8—Measurement bases Has the IASB: (a) correctly identified the measurement bases that should be described in the <i>Conceptual Framework</i>? If not, which measurement bases would you include and why? (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?</p>	<p>In our opinion there should be further discussion on the impact of the business model on the relevant measurement basis. We consider that this should be the key determinant in establishing the appropriate measurement basis. Consistent with our answer to Q1 above, paragraph 6.32 (which discusses the problems with fair value measurements in the absence of an active market) should be expanded to discuss the additional characteristics of reliability over faithful representation.</p>

<p>Q9—Factors to consider when selecting a measurement basis</p> <p>Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?</p>	<p>See Q8 above.</p>
<p>Q10—More than one relevant measurement basis</p> <p>Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?</p>	<p>See Q8 above.</p>
<p>Q11—Objective and scope of financial statements and communication</p> <p>Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?</p>	<p>Whilst the discussion is useful, greater prominence should be given to the Cash Flow Statement in 7.2.</p>
<p>Q12—Description of the statement of profit or loss</p> <p>Do you support the proposed description of the statement of profit or loss? Why or why not?</p> <p>If you think that the <i>Conceptual Framework</i> should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.</p>	<p>Please see our answer to Q3 above.</p> <p>In our opinion it is vital that the Conceptual Framework provides a definition of profit or loss as without it IFRS is left without a clear understanding of financial performance or a conceptual underpinning for what should be a valued and relied upon statement of performance. We would encourage the IASB to think radically about how profit and loss should be defined. In our opinion any definition should include the business model and the IASB should be open to entities including certain items of income or expense (such as fair value movements) either in profit or loss or other comprehensive income in different ways depending on the business model.</p>
<p>Q13—Reporting items of income or expenses in other comprehensive income</p> <p>Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?</p> <p>If you disagree, what alternative do you suggest and why?</p>	<p>See Q12 above. Given the comments noted there we do not believe that it is possible to conclude on this question at present.</p>

<p>Q14—Recycling Do you agree that the <i>Conceptual Framework</i> should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?</p>	<p>See Q12 above. Given the comments noted there we do not believe that it is possible to conclude on this question at present.</p>
<p>Q15—Effects of the proposed changes to the Conceptual Framework Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?</p>	<p>We have no additional comment.</p>
<p>Q16—Business activities Do you agree with the proposed approach to business activities? Why or why not?</p>	<p>We have no additional comment other than that made in response to Q8 above.</p>
<p>Q17—Long-term investment Do you agree with the IASB’s conclusions on long-term investment? Why or why not?</p>	<p>We concur with discussion given in this area and the conclusions reached.</p>
<p>Q18—Other comments Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.</p>	<p>We have no additional comment.</p>

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,



Tim Ward
Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Jonathan Lowe	Baker Tilly
Andrew Westbrook	
Anna Draper	BDO LLP
Amy Shephard	Deloitte LLP
Shalini Kashyap	EY
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
David Pugh	Nationwide Accident Repair Services PLC
Nigel Smethers	One Media iP Group PLC
Joseph Archer	PKF Littlejohn LLP
Donna Caira	Saffery Champness
Matthew Howells	Smith & Williamson LLP
Jack Easton	UHY Hacker Young
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc