



European Financial Reporting Advisory Group ■

DP/2013/1 A Review of the Conceptual Framework for Financial Reporting

Feedback to constituents – EFRAG Comment Letter

March 2014

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Introduction

Objective of this feedback statement

This feedback statement summarises the main comments received by EFRAG on its draft comment letter in response to the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the 'DP') and explains how those comments were considered by EFRAG's Technical Expert Group (EFRAG TEG) in its technical discussions on its final comment letter.

Background to the Discussion Paper

Following its Agenda Consultation 2011, the IASB decided to restart its work on the Conceptual Framework and published the DP on 18 June 2013. The aim of the DP was to obtain initial views and comments on important issues that the IASB would consider as it developed an Exposure Draft of a revised Conceptual Framework. Chapters included:

- Elements of financial statements (including recognition and derecognition);
- Measurement;
- Presentation and disclosure (including questions about the use of other comprehensive income).

Further details are available on the EFRAG [website](#).

EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 26 September 2013. EFRAG's tentative view was that it welcomed that the IASB had initiated a project on improving the IASB Conceptual Framework. EFRAG and other European constituents had, over the years, repeatedly called for the revision to take place before any fundamental change to the underlying IFRS accounting model would be made.

However EFRAG did not agree with all of the proposed solutions and thought that some of the issues should be addressed on a more conceptual basis.

EFRAG disagreed with the approach not to reconsider Chapters 1 and 3 of the existing Conceptual Framework as EFRAG did not support how the existing chapters dealt with stewardship, reliability and prudence.

However, EFRAG appreciated the IASB's preliminary view that financial statements could be made more relevant if the IASB would consider how an entity conducts its business activities. Similarly EFRAG agreed that measurement should be based on how assets contribute to future cash flows and how liabilities will be settled or fulfilled.

EFRAG also welcomed that the DP addressed the distinction between liabilities and equity but EFRAG did not support the proposals in the DP in relation to 'wealth transfers' (to reflect changes in rights and obligations that may be settled by transfer of an entity's equity instruments).

EFRAG supported the broader approach suggested in the DP to describing which items could be recognised in OCI. It believed that an entity's business model should play a role in defining primary performance and thus which items of income and expenses should be recognised in profit or loss and which should be recognised in OCI. EFRAG thought that the narrow approach suggested in the DP could artificially limit the IASB's possibilities for defining primary performance that should be reflected in profit or loss.

Comments received from constituents

Twenty-two comment letters were received from constituents and considered by EFRAG TEG in its discussions. These comment letters are available on the EFRAG [website](#).

EFRAG received comment letters from the following:

Table 1: Total respondents by type

National Standard Setters	9
Academics and academic associations	3
Preparers and preparer organisations	6
Auditors and associations of accountants	2
Enforcers and authorities	2
	22

The respondents to EFRAG's draft comment letter are listed in the appendix.

Generally, constituents broadly agreed with many of the views presented in EFRAG's draft comment letter. The main areas of difference in opinions related to:

- Definition/description of profit or loss; and
- Distinction between liability and equity elements.

A significant number of comment letters also disagreed that income and expenses should be defined (solely) on the basis of changes in assets and liabilities.

Outreach events

In October and November 2013, EFRAG and National Standard Setters (AFRAC, ASCG, AAT, DASB, DASC, CNC, and PASC) held outreach events, in coordination with the IASB staff and interested organisations.

The following table shows the locations where the outreach activities were conducted:

Table 2: Outreach event locations and dates

Germany	25 October 2013
The Netherlands	30 October 2013
Denmark	4 November 2013
Austria	5 November 2013
Lithuania	5 November 2013
Poland	19 November 2013
Luxembourg	26 November 2013

At the outreach events, selected issues from the DP were presented, followed by a presentation of EFRAG's tentative position. The aim of the events was to:

- stimulate the Conceptual Framework debate within Europe;
- obtain the views of constituents who may otherwise not submit a comment letter; and
- learn whether the preliminary position set out in EFRAG's draft comment letter were shared by European constituents.

Separate feedback statements from each of the outreach events can be found on the EFRAG [website](#).

When this feedback statement refers to views of constituents, it refers to the 22 comment letters received and to comments reflected in the feedback statements from the outreach events.

EFRAG's final comment letter

EFRAG published its [comment letter](#) on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* on 3 February 2014.

The main differences between the draft comment letter and the (final) comment letter are explained in the following paragraphs.

EFRAG's draft comment letter reflected that EFRAG thought that it would be difficult to define/describe performance, profit or loss, or other comprehensive income. EFRAG therefore supported an approach that would not hinder presentation of performance according to an entity's business model. The feedback EFRAG received, however, showed that constituents thought it was essential to define/describe profit or loss, other comprehensive income and/or performance. Accordingly, in its final comment letter, EFRAG stated that the Conceptual Framework should provide a definition/description of what profit or loss should depict, so that it could play its role of primary performance metric that would be meaningful in financial communication.

EFRAG's draft comment letter asked constituents whether 'to the entity' should be added to the proposed definition of an economic resource. Not many constituents supported this. EFRAG therefore decided not to suggest 'to the entity' to be added to the proposed definition of an economic resource.

EFRAG's draft comment letter also asked constituents whether it was useful to distinguish between uncertainty related to existence and uncertainty related to outcome. Several constituents thought that this was useful. EFRAG therefore decided to remove the comments included in the draft comment letter that the distinction was not important.

Based on the comments from constituents, EFRAG also decided that it could not support either of the approaches described in the DP on how to distinguish between liabilities and equity. Instead EFRAG suggested, in its final comment letter, the IASB to undertake a more comprehensive discussion on what this distinction would mean and would be attempting to portray.

In both its draft comment letter and in the final comment letter, EFRAG discussed how the IASB should deal with conflicts arising between the revised Conceptual Framework and existing Standards. EFRAG noted that such conflicts could indicate flaws in current Standards. Some constituents feared, however, that if the IASB would have to amend each Standard that conflicted with the Conceptual Framework, then many changes could be foreseen in the future. In its final comment letter, EFRAG therefore decided to specify, that EFRAG still believed

that projects to amend Standards should only be undertaken if there would be evidence that Standards do not work appropriately and the projects should follow the procedure for the IASB's agenda consultation.

EFRAG's draft comment letter included questions to constituents on whether the Conceptual Framework should include recognition thresholds. Constituents had mixed views on this issue. EFRAG was concerned that the proposals in the DP could result in many more items being recognised as assets in the statement of financial position. However, it also noted that it would be difficult to develop probability thresholds that would work for all assets and liabilities. EFRAG therefore thought that the Conceptual Framework should not include probability thresholds. The Conceptual Framework should instead provide guidance on how uncertainty affects relevance and reliability. This guidance should be used by the IASB when setting probability thresholds or other recognition criteria in Standards and by others through paragraph 11 of IAS 8. While EFRAG agreed with the DP that in deciding whether an asset or a liability should be recognised, relevance and faithful representation should be considered, EFRAG did not agree with implicitly including a rebuttable presumption that recognition would result in relevant and reliable information. EFRAG thought that a genuine assessment of relevance and reliability should be performed before recognising an asset or a liability.

The final comment letter explained that information most useful for assessing stewardship may not be most useful for assessing future cash flows. The objective of providing information for assessing stewardship could accordingly not be subsumed in the objective of providing information for assessing future cash flows. However, Standards should require, and financial statements include, sufficient information for assessing both stewardship and the prospects for future cash flows. The final comment letter also explained what EFRAG considered to be the difference between 'accountability' and 'stewardship'.

The final comment letter explained that verifiability should form part of reliability and that prudence should be explained next to neutrality to clarify that the two concepts should not be interpreted as contradicting each other.

Section 1 – Purpose and status of the Conceptual Framework

Question 1 – Status of the Conceptual Framework

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG generally agreed with the proposal on the purpose and status of the Conceptual Framework, but did not understand why parts of the Conceptual Framework should be for the IASB's use only. EFRAG agreed with the proposal that the IASB could introduce requirements in Standards that could conflict with the Conceptual Framework, but EFRAG believed that future conflicts as well as existing conflicts should be identified and explained.

Constituents' comments

Constituents generally agreed with the purpose and status of the Conceptual Framework. There were mixed views on whether the primary purpose of the Conceptual Framework was to assist the IASB. Some considered that it should also assist others when resolving issues not covered by Standards.

Different views were also expressed on how to deal with conflicts between Standards and the Conceptual Framework. One respondent disagreed that there could be conflicts between Standards and the Conceptual Framework. They believed that in case of conflicts, either the Standard or the Conceptual Framework would be wrong; accordingly one of them should be amended.

Some constituents did not believe that a supposed conflict would ever be sufficient reason by itself to merit an immediate revision to a Standard. They thought that any proposed review of a Standard should follow the procedure for the IASB's agenda consultations.

A constituent disagreed with the view expressed in EFRAG's draft comment letter that (only) conflicts between the Conceptual Framework and a Standard should be explained in the Basis for Conclusions. The relationship should always be explained.

One constituent did not think that there could be real conflicts between a Standard and the Conceptual Framework, because the Conceptual Framework required a trade off between different qualitative characteristics it would more often be a matter of emphasis on particular characteristics.

EFRAG's response to constituents' comments

EFRAG acknowledged that no constituent explicitly disagreed with the preliminary view that the Conceptual Framework was an important tool to achieve consistency across IFRS. EFRAG therefore maintained this position in its final comment letter.

EFRAG's draft comment letter expressed the view that the Conceptual Framework should also be expected to be used by others than the IASB. In its final comment letter, EFRAG stated that all parts of the Conceptual Framework could be useful for preparers or the IFRS Interpretations Committee; and that limiting the use of parts of the Conceptual Framework to the IASB could confuse constituents, result in the Conceptual Framework being less understandable and result in inconsistencies.

EFRAG also suggested in its final comment letter that the relationship between a new or revised Standard and the Conceptual Framework should be explained in the Basis for Conclusions of a Standard even when there would be no conflicts.

EFRAG did not amend the comment letter to suggest that there should be no conflicts between the Conceptual Framework and Standards, as EFRAG considered that such a procedure could hinder urgent changes in Standards. In the long run it would be ideal not to have any conflicts, but in the short run the process suggested by the respondent would, in EFRAG's view, stop progress.

Based on the comment that conflicts only represented instances of one consideration under the Conceptual Framework outweighing another, EFRAG decided to specify what it meant by a conflict by stating that a Standard could conflict with specific definitions or principles in the revised Conceptual Framework.

Section 2 – Elements of the financial statements

Question 2 – Defining assets and liabilities

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG's draft comment letter stated that the proposed definitions of assets and liabilities may be easier to understand than the current ones. EFRAG was, however, split on whether the definition of an economic resource should be amended to specify that the right, or other source of value, should be capable of producing economic benefits 'to the entity'.

Constituents' comments

Constituents had mixed views on whether 'to the entity' should be added to the proposed definition of an economic resource.

Constituents had also different views of the IASB's proposed definitions. Some felt that the proposed definitions were an improvement. Others feared that the proposed definitions would have some weaknesses. Some also noted that more items than currently would meet the definition of an asset.

One respondent thought that the 'control' aspect for assets, the notion of 'past event' and the entity aspect should be addressed and explained as part of recognition instead of being included in the definitions. Different views were expressed on whether the reference to 'past events' should be kept.

One respondent thought that it should also be possible to recognise liabilities base on a matching approach.

Several constituents expressed uncertainty about the implications of the proposed changes in the definitions. Some constituents were also concerned about the general relationship between measurement, definition and recognition principles, as they believed it would be difficult to assess the full impact and consequences of the revised definitions for assets and liabilities without knowing the overall effects on the actual standards (if any).

One respondent noted that clarifying the concept of the reporting entity and the perspective of presenting financial statements was necessary before debating issues such as the definition of assets and liabilities and equity.

EFRAG's response to constituents' comments

In its draft comment letter, EFRAG suggested that the proposed definitions should be tested to determine whether they would be interpreted consistently, or whether ambiguous wording in one area would just be replaced by ambiguity in another area. Based on the comments received, EFRAG decided to maintain this suggestion.

As there were the mixed views on whether 'to the entity' should be added to the proposed definition of an economic resource, EFRAG decided not to propose 'to the entity' to be added to the definition in its final comment letter. EFRAG noted that the link between the economic resource and the entity was established by stating that an economic resource should be 'controlled by the entity'. For liabilities, the link was established by stating that a liability should be a present obligation 'of the entity'.

EFRAG discussed whether the Conceptual Framework should define 'an asset' or 'an asset of an entity'. EFRAG favoured the latter approach as it thought it was most efficient to consider both the asset and the ownership in one definition. Accordingly, EFRAG decided not to suggest removing the reference to control in the definition of an asset, as suggested by some respondents.

EFRAG also considered whether it would be necessary to take account of situations where a liability (or an asset) should be recognised based on a matching approach. EFRAG thought that sometimes that would result in the most relevant outcome. However, instead of defining liabilities based on a matching approach, such liabilities should be recognised by means of departure from the principles in the Conceptual Framework in specific Standards.

Question 3 – Probability thresholds

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG's draft comment letter noted that the definitions of assets and liabilities should not include probability thresholds. The letter stated that EFRAG thought that the distinction between existence uncertainty and outcome uncertainty was not particularly important, but the draft comment letter included a question to constituents on whether it would be useful to distinguish between existence uncertainty and outcome uncertainty.

Constituents' comments

Some constituents argued in favour of including probability thresholds in the definition but most were against. A concern was raised that, although there were merits in removing the probability threshold, it might result in too many assets being recognised.

Most respondents found the distinction between existence uncertainty and outcome uncertainty useful.

One respondent agreed with removing 'expected' from the definitions, but did not think that everything that would meet the definitions should be recognised. Additional qualitative criteria had to be met, as the capability test would not be sufficient. Another respondent agreed with removing 'expected' from the definitions as the respondent thought that uncertainty related to measurement. The respondent noted that the issue related to finding the appropriate unit of account.

EFRAG's response to constituents' comments

Based on the comments received, EFRAG decided to remove the comment that distinguishing between existence uncertainty and outcome uncertainty was not important. EFRAG's final comment letter stated that it may be difficult to distinguish between existence uncertainty and outcome uncertainty in practice, but the distinction may be useful in relation to standard setting.

EFRAG maintained its position that uncertainty related to inflows and outflows should not be considered in relation to the definitions. EFRAG thought that the concern of some constituents that the proposal would result in too many assets being recognised was an issue that could be considered in relation to recognition.

Question 4 – Defining elements of financial statements

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG expressed support for income and expenses being defined on the basis of changes in assets and liabilities. EFRAG believed it would be useful to define contributions to equity, distributions of equity and transfers between classes of equity. However, EFRAG did not see any particular benefits in defining cash receipts and cash payments. Instead the IASB should consider what the statement of cash flows should communicate.

Constituents' comments

A number of respondents thought that performance should be defined.

One respondent specifically disagreed with EFRAG and the IASB that no statement should have primacy. The respondent believed that the statement of profit or loss had a special meaning for investors and other users, and should be considered the primary financial statement.

Constituents made comments related to the definitions of income, expense, gains and losses. One respondent suggested that the definitions of income and expenses needed to be amended to include recycling adjustments. Some other respondents felt that the terms 'income' and 'expense' had established meanings and connotations that were not always appropriate for the wide range of items that fell within these elements in the Conceptual Framework. The respondent suggested using a more general term, such as 'gains' and 'losses'.

Several respondents were against defining income and expenses on the basis of changes in assets and liabilities.

EFRAG's response to constituents' comments

The academic literature review recently published by EFRAG and ICAS showed that while professional equity investors focused on the statement of profit or loss, lenders tended to base their decisions on figures derived from the financial position. EFRAG therefore did not agree with the suggestion that the statement of profit or loss should have primacy over the statement of the financial position.

EFRAG could see some benefits from changing the use of the terms 'income' and 'expenses'. For example, the terms 'income' and 'expenses' could be used in relation to the statement of profit or loss only, while another term could cover the items recognised in OCI. However, in that case, EFRAG did not know how to define 'income' and 'expenses'. On the suggestions to use 'gains' and 'losses', EFRAG considered that translation of these terms could be problematic. EFRAG therefore did not include comments in the final comment letter on changing the terms.

As explained in the Bulletin on the asset/liability approach, EFRAG thought that the asset/liability approach had some merits compared to a matching approach. Focusing on changes in assets and liabilities, in EFRAG's view, provides greater clarity for the development of accounting Standards. EFRAG therefore maintained its position that income and expenses should be defined based on changes in assets and liabilities.

However, EFRAG noted the concern raised about items recycled from OCI not meeting the definitions of income and expenses. EFRAG therefore included a comment in its final comment letter, stating further work on how to distinguish between items to be recognised in OCI or profit or loss would have to be considered in order to decide how to best deal with this conflict.

In addition, EFRAG did not think that defining income and expenses entirely on the basis of changes in assets and liabilities would give priority to the statement of financial position. This position was further explained in the Bulletin on the asset/liability approach.

Section 3 – Additional guidance to support the asset and liability definitions

Question 5 – Constructive obligations

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the DP that the IASB should retain the existing definition of a liability which encompassed both legal and constructive obligations. However, EFRAG thought that constructive obligations should be defined more broadly than what was proposed in the DP.

Constituents' comments

Most respondents supported that liabilities should include constructive as well as enforceable obligations. One respondent noted that the constructive obligation limitation did not always provide an easily-justifiable dividing line, but the respondent did not supply an alternative solution.

Some respondents did not agree with the statement in the DP that restructuring provisions that were recognised in accordance with the current requirements would not necessarily meet the criteria for constructive obligations.

The DP noted that additional guidance could specify that, for an entity to have a constructive obligation, another party or parties should be able to reasonably rely on the entity to discharge its duty or responsibility as a result of the entity's past actions. One respondent specifically considered it to be wrong to regard the entity's past history as determinative at the Conceptual Framework level (although it might be a practicable basis to use at the standards level).

Another constituent was concerned that if the IASB attempted to define assets and liabilities symmetrically, this would mean a party would have an asset when another had a constructive obligation.

EFRAG's response to constituents' comments

Based on the responses, EFRAG maintained its position that liabilities should include constructive obligations. EFRAG also maintained its view that constructive obligations were defined too narrowly in the DP. EFRAG considered that if an entity had no realistic alternative to a restructuring plan, obligations following from this plan should be recognised as liabilities.

EFRAG decided to note in the comment letter that the Conceptual Framework should not refer to an entity's past history. This reference could be used on a standards level to operationalise the principle.

Based on the comment received regarding symmetry, EFRAG included the comment that a liability for one party does not have to be mirrored by an asset for another party.

Question 6 – Additional guidance for when a liability is present

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

The DP presented three views on how additional guidance could explain when an obligation would be present, and hence when a liability would exist:

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

In its draft comment letter, EFRAG supported View 2. However, the term 'past events' should be described differently than suggested in the DP in cases where the entity would not receive direct benefits from incurring an obligation.

Constituents' comments

Overall most respondents preferred View 2 of the DP, but many considered that the IASB had to better explain the different views. Some respondents would only be able to decide between View 2 and View 3 after further clarification was provided, including considering the consequences of the approaches.

Some constituents considered that the term 'practical ability to avoid' needed to be developed. It was suggested that the term 'practically unconditional' should be replaced by terms already used and understood, such as 'probable', 'reasonably certain' or 'no realistic alternative'.

EFRAG's response to constituents' comments

Based on the comments received, EFRAG maintained its support for View 2 and its opinion that the effects of the different views as presented in the DP were difficult to assess.

EFRAG noted in its final comment letter that the term 'practically unconditional' in View 2 was ambiguous as some believed it meant 'virtually certain', while others believed it meant 'unconditional in practice'. The term might accordingly lead to differing interpretations of View 2. EFRAG believed that liabilities arise when the entity has no realistic alternative to avoid sacrificing economic resources. Accordingly, EFRAG suggested that this term be applied when describing View 2.

Question 7 – Other additional guidance for assets and liabilities

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG supported the additional guidance provided in the DP to support the asset and liability definitions. However, it noted that the definition of control in the DP may be different from how some currently interpret the term. In addition, EFRAG considered that the Conceptual Framework should provide additional guidance on when economic compulsion should be considered when distinguishing between equity and liability.

Constituents' comments

Generally constituents agreed with EFRAG's draft comment letter.

Some constituents thought that the effects of economic compulsion should be clarified.

Some respondents noted that the topic of reporting the substance of a transaction would be best addressed in Chapter 3 of the Conceptual Framework.

Several constituents commented on executory contracts, believing that the proposed treatment in the DP was not satisfactory due to lack of justification of the arguments and a lack of inclusion of underlying principles.

EFRAG's response to constituents' comments

Based on the comments, EFRAG maintained its position that it supported the additional guidance to be included in the Conceptual Framework to explain the meaning of: 'economic resource'; 'control'; and 'transfer an economic resource'. It also continued to support the guidance provided on executory contracts. EFRAG's comment letter therefore noted that the role of economic compulsion had to be clarified when it would be part of a contractual arrangement.

EFRAG considers that whether an executory contract would give rise to a single net right and obligation to exchange or a gross right or gross obligation might depend on fact and circumstances, but also on the unit of account. Accordingly, EFRAG did not suggest separate principles in relation to executory contracts in its final comment letter.

Section 4 – Recognition and derecognition

Question 8 – Recognition

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the DP that relevance and faithful representation should be considered when deciding on recognition of assets and liabilities; however, EFRAG was undecided as to whether the Conceptual Framework should include probability thresholds in relation to recognition.

Constituents' comments

Some respondents were concerned that the proposals would result in many assets being recognised. They were concerned that the proposed broad definition of an asset would include items currently not recognised in financial statements. The respondents were not convinced that the reference to the qualitative characteristics of relevance and faithful representation would provide sufficient guidance to ensure that consistent solutions are found at the Standard level.

Most respondents were not concerned about removing the probability thresholds, nor the possibility that previously unrecognised assets may now be recognised.

It was suggested that the IASB should refine the suggested criteria and develop standards using the principles in order to avoid diversity in Standards and in practice. Recognition filters should address the availability of reliable measurement methods and include some form of probability test (which does not mean quantitative thresholds only).

Other respondents thought that the Conceptual Framework should not include recognition thresholds, but that those thresholds would be appropriate on a standards level.

Some respondents commented on what qualitative recognition criteria could be.

EFRAG's response to constituents' comments

Considering the comments received and noting the difficulties identified in developing a set of probability thresholds that would work for all assets and liabilities, EFRAG agreed with the DP that there should be no probability thresholds in the Conceptual Framework.

However, EFRAG was concerned about the general requirement proposed in the DP that seemed to suggest that recognition of all assets and liabilities, without evidence for the contrary, would result in relevant and reliable information. EFRAG believed that the principles should be worded differently in order to make recognition criteria more effective and call for a genuine assessment of relevance and reliability. These principles should not be reserved to the IASB. But the principles should also be useful when including probability thresholds in Standards to ensure consistency.

EFRAG also requested that the Conceptual Framework should explain the difference and interaction between relevance and reliability.

Question 8 – Recognition (continued)

EFRAG's tentative views and constituents' comments

One constituent strongly disagreed that only the IASB can determine that particular assets or liabilities should not be recognised. They considered that it is important that preparers are able to exercise judgement in determining whether assets and liabilities should be recognised, where these are not covered by a specific Standard.

Some respondents were concerned about removing the probability thresholds. Some commented on whether the criteria for recognising assets and liabilities should be the same. A few constituents were in favour of the possibility of different recognition filters for assets and liabilities. Prudence and reliability may require earlier recognition of losses than of gains.

One respondent noted that the cost/benefit constraint was explicitly considered in relation to recognition. However, it was a pervasive constraint and should thus be presented in relation to all issues – or none of the specific issues.

EFRAG's response to constituents' comments

Question 9 – Derecognition

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG supported the proposals included in the DP, but thought that guidance should be provided on the difference between a modification of an asset or liability and derecognition of an asset or liability and recognition of another.

Constituents' comments

Some respondents generally agreed with the DP and the response in EFRAG's draft comment letter.

Many comments related to considering risks and rewards in relation to derecognition. Some constituents thought that derecognition should be based on a risk-and-rewards approach: an entity should continue to recognise an asset or a liability until it is no longer exposed to most of the risks and rewards generated by that asset or liability.

One respondent noted that the proposed control approach for derecognition in the DP was inconsistent with the current derecognition model applied in IAS 39 (and IFRS 9). The respondent thought that the IASB should not propose a control model for derecognition as it would create a significant conflict with Standards. Instead the IASB should restrict its guidance on derecognition in the Conceptual Framework to a high level principle that would accommodate both a risks-and-rewards based and a control-based model. Another constituent had a similar concern and noted that in one place the DP seemed to refer to a control approach for derecognition and in another place it referred equally to the control approach and the risk-and-rewards approach. A number of respondents believed that the two approaches were interlinked.

EFRAG's response to constituents' comments

EFRAG maintained its position of support for the proposals included in the DP. EFRAG agreed with many respondents that in some cases it seemed most appropriate to consider risks and rewards in relation to derecognition. However, EFRAG did not consider the approach suggested in the DP to be contradictive to basing derecognition requirements in Standards on risks and rewards.

Section 5 – Definition of equity and the distinction between liabilities and equity instruments

Question 10(a) – Defining equity as the residual interest in an entity after deducting all of its liabilities

EFRAG’s tentative views and constituents’ comments

EFRAG’s tentative position

EFRAG supported retaining a split between equity and liability claims and equity being the residual claim on the entity that is not directly remeasured. However it noted that there were two distinct meanings of ‘residual’ relating to equity, being:

- the part of the statement of financial position which is not directly remeasured; and
- a claim on the entity which is not a liability.

The draft comment letter expressed concerns that some of the IASB’s proposals regarding remeasurement of equity claims might not be entirely consistent with the notion of equity as the part of the statement of financial position that is not directly measured and noted that the second of these was dependent upon the definition of a liability.

Constituents’ comments

The majority of constituents supported equity continuing to be measured as a residual and not reflecting the full valuation of an entity.

Some respondents agreed that the existing definition of equity as a residual should be retained, but also thought that a new category of ‘hybrid instruments’ should be introduced to assist in resolving difficult classification issues.

EFRAG’s response to constituents’ comments

EFRAG maintained its preliminary views in its final comment letter.

Question 10(b) – The Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG stated that before deciding on specific requirements for identifying equity, it was important to decide if this was being done from an entity or proprietary perspective to financial reporting.

EFRAG did not support identifying the most residual instrument as equity – the IASB's 'Narrow Equity Approach'. In the absence of widespread agreement on another distinguishing characteristic, EFRAG supported the strict obligation approach as being an appropriate basis to distinguish between equity instruments and liabilities.

Constituents' comments

A number of constituents explicitly supported determining whether an entity or proprietary perspective to financial reporting was being taken before deciding how equity instruments should be distinguished from liabilities. No respondents to the draft comment letter supported adopting a proprietary perspective to distinguishing equity instruments from liabilities.

Some constituents identified additional problems with identifying the most residual instrument as equity within the narrow equity approach. A number of difficulties with a strict obligation approach were also identified, including economic compulsion and equity settlement alternatives without economic substance.

Respondents supported incorporating the logic of IFRIC 2 at the conceptual level.

EFRAG's response to constituents' comments

In its final comment letter, EFRAG stated that it did not support either the strict obligation approach or the narrow equity approach and it believed further work was needed before any revised conceptual distinction is adopted.

Comments from constituents related to the difficulties within a strict obligation approach were included.

Question 10(b)(i) – Obligations to issue equity instruments

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with classifying obligations to issue equity instruments as equity and that this was consistent with the proposed definition of a liability.

However, EFRAG noted that obligations to issue equity instruments ('secondary equity claims') were fundamentally different from existing rights on net assets ('primary equity claims'). The draft comment letter also stated that there was a link to the description in current IFRS of owners as 'the holders of instruments classed as equity' and that it was not appropriate to describe holders of secondary equity claims as owners. The draft comment letter called for an explicit recognition in the Conceptual Framework of these different classes of equity claim.

Constituents' comments

Some constituents explicitly agreed that the nature of primary and secondary equity claims were fundamentally different and that it was not appropriate to describe holders of secondary equity claims as 'owners'. Instead, secondary equity claims represented potential ownership interests. One respondent also thought that additional guidance was needed on the types of instruments that would be classified as primary and secondary equity claims given the resulting differences in remeasurement.

Some constituents broadly agreed with EFRAG's support of the strict obligation approach.

One respondent stated that the strict obligation approach was better than the narrow equity approach, but also stated that it believed puttable interests that represent the residual interests in the net assets of an entity should be classified as equity.

Another respondent was concerned that the revised distinction would have a significant impact on banks. They specifically mentioned obligations to deliver a variable number of own equity instruments and thought the IASB should do a thorough analysis before concluding on the issue, particularly with relation to the definition of 'economic resource'.

EFRAG's response to constituents' comments

EFRAG's preliminary position was modified to reflect concerns regarding the relevance of classifying secondary equity claims as equity. In the final comment letter, EFRAG did not support the strict obligation approach, as classifying obligations to issue equity instruments as equity may not result in the most relevant financial reporting. EFRAG believed that primary and secondary equity claims were fundamentally different, and that the Conceptual Framework should reflect this.

EFRAG was not convinced that remeasuring equity claims was conceptually sound or always practically possible.

EFRAG believed there were a number of consequences of adopting a strict obligation approach that were not apparent from the DP. If the IASB decided to proceed with the strict obligation approach, EFRAG thought it was important that these consequences would be appreciated in advance. These consequences included:

- instruments with settlement options would be classified as equity, even if they were expected to be settled in cash; and
- almost any transaction could be structured to achieve equity treatment (and thus not be remeasured through comprehensive income).

These were natural consequences of the strict obligation approach. Including anti-abuse provisions at standards level to avoid these consequences (and require certain instruments or transactions to be classified as liabilities) would conflict with the Conceptual Framework and be indicative of problems with the basic conceptual distinction.

Question 10(b)(i) – Obligations to issue equity instruments (continued)

EFRAG's tentative views and constituents' comments

Some respondents disagreed with the strict obligation approach and proposed the distinction for obligations to issue equity instruments should be based on whether an entity's own shares were used as a form of currency.

Some constituents did not think that distinction between equity or liability claims should be made in the Conceptual Framework, but should be regulated in the individual Standards concerned.

One respondent, who did not take a position, expressed concern regarding the classification of secondary equity claims and noted that the current requirements for when obligations to receive or deliver equity instruments are classified as equity in IAS 32 *Financial Instruments: Presentation* were based on specific and narrow conditions. The respondent thought that providing such specific and narrow conditions in a Conceptual Framework did not appear appropriate.

One respondent proposed an alternative approach where equity included only instruments that might only ever be settled in equity instruments (regardless of whether this would be a fixed or variable number). Instruments with settlement alternatives would be classified as hybrid instruments, below liabilities but above equity. If it was expected that these be settled in cash, changes in the measurement would be recognised in comprehensive income. If it was expected they would be settled with shares, changes in the measurement would be recognised in the Statement of Changes in Equity. Changes in expectation would result in recycling between comprehensive income and the Statement of Changes in Equity.

EFRAG's response to constituents' comments

Question 10(b)(ii) – Obligations that arise only on liquidation

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG's draft comment letter generally agreed that obligations that would only arise on liquidation of the reporting entity should not be classified as liabilities.

Constituents' comments

No respondent disagreed with EFRAG's draft comment letter.

Question 10(c) – Remeasurement of equity claims

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed that the various primary equity claims on an entity should be portrayed based on claims on recognised net assets and thought that it was a logical consequence of the notion of equity as a residual. It also stated that if secondary equity claims were to be directly remeasured then it would no longer equity as a whole that would be the residual but primary equity claims.

EFRAG did not think the proposals in the DP appropriately depicted dilution or were appropriate for portraying the performance of an entity with respect obligations that were secondary equity claims. EFRAG also did not support the use of the term 'wealth transfer'.

EFRAG also noted that the proposals in the DP did not provide a conceptual basis to solving what some saw as the counter-intuitive accounting for puttable instruments, including puts over non-controlling interests ('NCI puts'). EFRAG made an alternative proposal, that secondary equity claims be remeasured through comprehensive income and thought this alternative proposal might provide a conceptual basis to address this counter-intuitive accounting.

EFRAG's response to constituents' comments

In line with the support received, EFRAG maintained its preliminary position in its final comment letter.

EFRAG's response to constituents' comments

EFRAG noted that most constituents had concerns about the proposals in the DP and that there was limited support for the direction the IASB had taken or for EFRAG's alternative suggestion. However, there was little common ground on how the Conceptual Framework should address the problems and inconsistencies the IASB had identified.

Addressing these issues at the level of individual standards, as some constituents had suggested, would not address the inconsistencies.

In the final comment letter, EFRAG maintained its preliminary position that:

- it did not support the notion of 'wealth transfers';
- the proposals did not present a conceptual solution to addressing puttable shares (including NCI puts);
- the proposals would not appropriately depict dilution;
- it had concerns regarding requiring the measure of all classes of equity claim to be updated; and

Question 10(c) – Remeasurement of equity claims (continued)

EFRAG's tentative views and constituents' comments

Constituents' comments

Some constituents did not support updating the measure of equity claims.

A number of constituents did not support the Conceptual Framework requiring the measure of all individual classes of equity claim to be updated. Of those constituents, some thought requirements regarding updating the measure of equity claims should be addressed at the standards level.

Others expressed concerns regarding the proposals. They thought that additional research should be conducted before any proposals were finalised.

Two respondents specifically commented on EFRAG's alternative proposal to require remeasurement of secondary equity claims through comprehensive income. One supported, the other disagreed.

A number of respondents disagreed with the description of remeasurement of equity claims as 'wealth transfers', noting that it was not the purpose of the financial statements to depict the value of an entity.

Two respondents generally agreed that the notion of wealth transfers could present useful information to users.

Question 10(d) – If an entity has no equity instruments

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG appreciated the problems caused when an entity had issued no instruments that were purely equity, but was not convinced the approach proposed in the DP was the best one. EFRAG noted that this proposal appeared to contradict the key decision taken with respect to distinguishing equity instruments from liabilities.

EFRAG supported the explicit recognition that the proposed definition of equity would not always result in appropriately classifying the basic ownership instruments in some corporate structures common across Europe. However, EFRAG believed that this merely reflected the problems

EFRAG's response to constituents' comments

- classifying all secondary equity claims as equity without updating the measure would introduce significant challenges with respect to relevance and understandability.

EFRAG requested that a further discussion on the equity/liability distinction should take place before the production of an Exposure Draft, or that the Exposure Draft not prescribe the approach to be taken in respect the equity/liability distinction.

The final comment letter also included suggestions for what areas should be addressed in this further discussion (areas that were not significantly addressed in the DP), as follows:

- depicting dilution;
- rights to receive equity instruments; and
- whether the split between equity instruments and liabilities also needs to drive the definition of income and expense.

EFRAG's response to constituents' comments

In its final comment letter EFRAG maintained the position in the draft comment letter. Reflecting constituent comments, the final comment letter also stated that EFRAG did not understand why the Conceptual Framework should explicitly state that the IASB could decide, at a standards level, to override the conceptual distinction between equity instruments and liabilities.

Question 10(d) – If an entity has no equity instruments (continued)

EFRAG's tentative views and constituents' comments

inherent in the strict obligation approach. EFRAG was not persuaded that an approach of reclassifying the most subordinated instrument was appropriate but instead referred to the Conceptual Framework reflecting the importance of basic ownership instruments.

Constituents' comments

Some constituents generally concurred with the response in EFRAG's draft comment letter. A number of respondents did not support overriding the conceptual definition of equity.

Some constituents did not believe it was necessary for the Conceptual Framework to specifically address the issue.

Some other constituents supported the proposal, noting that the details would be decided in individual standards.

Question 10 – Other matters identified

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG's draft comment letter also included three others issues that had proven problematic and would continue to do so under the strict obligation approach:

- Economic compulsion (by cross reference to the section of the comment letter dealing with whether an obligation exists);
- Determining the boundaries of an entity; and
- Instruments that oblige an entity to transfer (or distribute) an amount determined by reference to profit, revenue or cash flows.

Constituents' comments

One respondent specifically agreed that economic compulsion was an issue.

No constituent disagreed with EFRAG's comments.

EFRAG's response to constituents' comments

Based on the feedback received, EFRAG maintained its preliminary position in its final comment letter.

Section 6 – Measurement

Question 11 – General on measurement

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG broadly agreed with the IASB's preliminary views. EFRAG, however, believed that the business model should also play an important role in selecting the appropriate measurement basis, and help implementing the proposed principles in a reliable manner. EFRAG also believed that limiting the number of measurement bases could conflict with the objectives of financial reporting.

Constituents' comments

While respondents broadly agreed with EFRAG's position, others disagreed.

Some respondents thought that the discussion of measurement failed to provide the depth of analysis that would be necessary if the Conceptual Framework were to provide useful guidance to the IASB. They considered the discussion of specific measurement bases as superficial and incomplete. A number of constituents commented that further clarification and discussion of the issues surrounding measurement was required.

A number of respondents had reservations regarding the proposed measurement objective, as the objective seemed to be a replication of the general objective of financial reporting.

In relation to the qualitative characteristics of financial reporting, some constituents argued that faithful representation would not provide very meaningful contents to the proposed objective and believed reliability was a very important factor in the selection of an appropriate measurement basis.

One respondent noted that 'faithful representation' should be replaced with 'reliable representation'. The respondent also noted that the role of prudence in providing reliable information needed to be considered. Another constituent believed that stewardship should be a specific criterion and did not agree that an uncertain measurement could become faithful just by adding disclosure to compensate for the lack of reliable input.

One constituent believed the Conceptual Framework should provide more guidance and direction on how to deal with uncertainty.

EFRAG's response to constituents' comments

Based on the comments received, EFRAG modified its response in the final letter to state that 'the objective of measurement seems to be a replication of the general objective of financial reporting and therefore EFRAG does not think this objective will add any value for the IASB's measurement decisions when developing accounting standards'.

EFRAG agreed with the respondents suggesting that 'faithful representation' be replaced by 'reliability'. EFRAG noted that it had commented on this in relation to Question 22 in its draft comment letter, and would keep that comment in its final comment letter. In relation to measurement, EFRAG decided to incorporate comments from constituents by stating that reliability needed to have more prominent role in measurement as a trade-off in relation to relevance.

EFRAG also agreed with the respondent suggesting that the Conceptual Framework should provide more guidance on uncertainty. However, EFRAG thought this was particularly relevant in relation to recognition, and thus provided its comments on this issue in response to Question 8 of the DP

Question 11 – General on measurement (continued)

EFRAG's tentative views and constituents' comments

EFRAG's response to constituents' comments

A single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements

The majority of constituents agreed with EFRAG's draft position on this issue. A minority of constituents specifically disagreed. One of these wondered whether it should be an objective by itself to have different measurement bases.

EFRAG agreed with the respondent noting that having different measurement bases should not be an objective in itself. However, EFRAG also did not think that the DP suggested this. In the view of EFRAG, the DP proposed that the Conceptual Framework should not recommend measuring all assets and liabilities on the same basis, and EFRAG agreed with this.

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

Some constituents agreed with EFRAG's draft position on this issue, while others disagreed.

EFRAG's draft comment letter contained a statement that using two different measurement bases would only be warranted if both measures would provide sufficiently useful information about different facets of the entity's financial position and financial performance. As the use of two measurement bases would result in additional costs and might make the financial statements less understandable, the IASB would need to justify that the benefits of the additional information on the face of primary financial statements would outweigh the costs. EFRAG believed that its preliminary position adequately addressed concerns from constituents about having different measurement bases.

Some of the respondents were concerned about having different measurement bases for the statement of financial position and the statement(s) of profit or loss and OCI. They thought that such solution would make the process of preparing financial statements significantly more time-consuming and costly and would deteriorate their usefulness for the users. One constituent specifically preferred that the results of applying alternative measurement bases should only be disclosed in the notes to the financial statements.

One respondent commented that the DP did not address the issue of when it would be relevant to use a different measurement basis in the profit and loss and the statement of financial position; that respondent believed that the final Conceptual Framework should include such guidance.

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

Some constituents disagreed with EFRAG's draft position on this issue. Of those respondents, some did not agree with the suggestion that it was the investor or creditor who should determine how the asset or liability would contribute to the cash flows; they argued that the entity's business model should be the key driver for this.

EFRAG thought that how investors, creditors and other lenders would be likely to assess how an asset or a liability would contribute to future cash flows would depend on an entity's business model. Contrary to some respondents, EFRAG did not consider there to be a conflict between reflecting an entity's

Question 11 – General on measurement (continued)
EFRAG's tentative views and constituents' comments

One respondent thought it was unclear why measurement should depend on 'how investors, creditors and other lenders are likely to assess how an asset or liability contributes to cash flows' as opposed to simply on 'how the asset or liability will contribute to future cash flows', and whether there would be any difference between the two. The respondent noted that this wording appeared to be an attempt to incorporate aspects of both entity-specific and market-based measurements, but the reason for it was unclear.

The number of different measurements used should be the smallest number necessary to provide relevant information

A number of constituents did not support EFRAG's preliminary position that limiting the number of measurement bases could conflict with the objectives of financial reporting; they thought that the number of measurement bases should be limited to the smallest number necessary to provide relevant information.

On the other hand, some constituents were not convinced that having the smallest number of measurement basis would be the best solution. The key criterion should be to have the most useful and relevant information, which might mean that additional measurement basis might be necessary.

Two respondents did not concur with the preliminary view expressed in the DP that a change of measurement basis subsequent to the initial recognition would reduce understandability of financial reporting. They believed that measurement at fair value should not rule out subsequent measurement at depreciated or amortised cost.

The benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost

One constituent thought the Conceptual Framework should be clear that a meaningful assessment of the benefits and costs of a particular measurement basis could not be made in isolation, but only relative to the benefits and cost of alternative measurement bases. Another believed that the assessment of the costs and benefits of a proposed measurement basis should be addressed at the Standard level.

EFRAG's response to constituents' comments

business model when deciding on the appropriate measurement basis and considering how financial statement users would assess how an asset would contribute to future cash flows. EFRAG believed that users could be assumed to assess how an asset would contribute to future cash flows on the basis of the entity's business model.

EFRAG included constituents' disagreement with the preliminary view about understandability: that a change of measurement basis subsequent to the initial recognition considerably reduces the understandability of financial reporting and that the subsequent measurement should be the same as, or at least consistent with, the initial measurement. This argument was strengthened by stating that this principle should not artificially limit the IASB's possibilities of applying the objectives of financial reporting and/or measurement.

EFRAG also maintained its position that limiting the number of measurement bases should not be an objective in itself.

EFRAG thought the DP's preliminary view that benefits of a particular measurement basis to users of financial statements need to be sufficient to justify the cost (Question 11f) of the DP) was merely a replication of the general cost-benefit consideration from paragraph QC35-QC39 of the 2010 Conceptual Framework for Financial Reporting. On that basis, EFRAG believed that this view was not required to be presented in the measurement

Question 11 – General on measurement (continued)
EFRAG’s tentative views and constituents’ comments

One respondent argued that when the IASB had to decide among the divergent requirements of different users it would be necessary to have full knowledge of those user’s needs.

section of the Conceptual Framework.

EFRAG’s response to constituents’ comments

EFRAG supported that information about users’ needs would be collected. However, it noted that currently evidence was sparse. To some extent, some decisions would have to be made without statistically representative empirical evidence.

Question 12 – Subsequent measurement of assets

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG broadly agreed with the IASB's preliminary views in relation to subsequent measurement of assets.

Constituents' comments

Some constituents agreed with EFRAG's position, while others disagreed.

One respondent thought that the revised Conceptual Framework should also deal with the implications of the selection of the initial measurement attribute. That respondent believed that the DP did 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).

Some respondents believed that the measurement basis for assets and liabilities should reflect the link between assets and liabilities, which was particularly relevant for insurance companies.

Some respondents believed that the approach in the DP would not work; it would, for example, imply that manufacturers' finished goods and retailers' inventories should be measured at a current exit price. In order to avoid measuring manufacturers' finished goods and retailers' inventories at a current exit price, respondents suggested that a trading category should be considered in addition to or replacing the current exit price basis.

A number of constituents made further comments in relation to current exit price, including that current exit price was inappropriate both for items to be sold in a normal operating cycle, such as inventory, and for items where the sale or the sales price would still be uncertain, such as sales of non-current assets. Some constituents said that other business-model-based considerations should be taken into account.

Some constituents argued in favour of cost-based measures rather than current value information. They believed that it would be helpful to identify the situations where cost-based measures were recommended.

EFRAG's response to constituents' comments

Based on the comments received, EFRAG decided to state in its comment letter that it agreed with the DP that current exit price would generally be inappropriate for items an entity buys and sells in different markets.

EFRAG also decided to state that it was unfortunate that the notions of impairment and depreciation/amortisation were not considered as part of the discussion on subsequent measurement.

Some comments received in response to this question were considered in relation to other parts of EFRAG's final comment letter, as follows:

- Comments on arguments in favour of cost-based measures were considered under Question 14; and
- Comments that the revised Conceptual Framework should include high-level guidance on when the current measurement for an asset or a liability should change was considered under Question 15.

Question 12 – Subsequent measurement of assets (continued)
EFRAG's tentative views and constituents' comments

It was also suggested that the revised Conceptual Framework should include high-level guidance on when the current measurement for an asset or a liability should change. That guidance should help to understand the consequences of the proposed implications to existing IFRS, for example IAS 2 and IFRS 5.

One respondent found it unfortunate that the notions of impairment and depreciation/amortisation were not considered as part of the discussion on subsequent measurement.

Question 13 – Subsequent measurement of liabilities

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG broadly agreed with the IASB's preliminary views in relation to subsequent measurement of liabilities.

Constituents' comments

Cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms

Some respondents agreed with EFRAG's preliminary position and some disagreed.

Some constituents called for more guidance, and consistency in determination of the use of the discount rate in cash-flow-based measurements, especially whether the discount rate should reflect any form of risk and if so, the type of criteria for considering the risk. The IASB should clarify the objectives for the use of the discount rate and that Conceptual Framework should contain a sound conceptual basis for all elements included into the discount rate.

A cost-based measurement will normally provide the most relevant information about liabilities that will be settled according to their terms and contractual obligations for services

Some constituents agreed with EFRAG's preliminary position; others disagreed.

One of the respondents that disagreed with the EFRAG's preliminary position noted that there were a number of liabilities that would be settled according to their terms (e.g. defined benefit pension obligations) where a 'cost-based' measurement would not be appropriate.

Another respondent noted that both cash-flow-based measures and current market prices might provide similarly relevant information for liabilities that

EFRAG's response to constituents' comments

Based on the comments received, EFRAG decided to amend its answer in relation to liabilities without stated terms. EFRAG noted that applying a cash-flow based measure could be used to estimate a current value or cost, therefore it would also be possible to measure liabilities without stated terms, such as liabilities arising from torts or violations of laws or regulations, at a current value or cost. EFRAG noted in its final comment letter that it did not believe that the cash-flow measurement discussion addressed properly which measurement attribute the cash-flow measurement was aiming to achieve.

EFRAG thought that constituents comments regarding how to determine the discount was addressed in EFRAG's response to Question 15.

EFRAG noted that some respondents thought that the proposals of the DP would result in lease obligations and pension obligations being measured at cost, when a cash-flow based measure would seem more appropriate. While EFRAG thought that the proposals of the DP generally would result in pension obligations being measured based on cash-flows, EFRAG agreed to note that some thought there was an issue in relation to lease liabilities. EFRAG similarly decided to include in its final comment letter that the Conceptual Framework should clarify whether cash-

Question 13 – Subsequent measurement of liabilities (continued)
EFRAG's tentative views and constituents' comments

would be settled according to their terms and contractual obligations for services.

A third respondent noted that the suggestion seemed to mean that lease liabilities and pension obligations should not be measured at discounted cash flows.

Current market prices are likely to provide the most relevant information about liabilities that will be transferred.

Some constituents argued that current exit prices were likely to be the relevant measure for liabilities that would be transferred. One stated that transfer of liabilities was uncommon, but the trading of liabilities could arise. Other respondents thought that, as there would often be no market, it would be unclear whether 'current market prices' would be an appropriate description. One respondent specifically suggested that, as with assets, the amount should include the cost to transfer the liability.

One constituent further argued that cash-flow based measurements were to be used wherever it would be concluded that cost or current market prices were unavailable or unsuitable. They were therefore the default measure and so might, perhaps, be used fairly often. However, cash-flow based measurements were often highly dependent on subjective estimates and judgements, which impaired reliability. The constituent suggested it should therefore be acknowledged that such measures should be used only where their superior relevance would outweigh this disadvantage.

EFRAG's response to constituents' comments

flow based measurement (other than one that functions to estimate current prices) would be a distinct measurement basis or would solely be a technique/method to obtain cost-based/non-current value.

EFRAG noted that it asked for clarification on whether to consider cash-flow based measures as a distinct measurement basis and/or a technique to estimate other measurement basis. It also noted that its position in relation to reliability was expressed in response to Question 22.

Question 14 – Subsequent measurement of some financial assets and financial liabilities

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the IASB's views on the topic of *Subsequent measurement of some financial assets and financial liabilities*.

Constituents' comments

The majority of respondents to this question broadly agreed with EFRAG (and the IASB's) preliminary views.

Some additional comments were made, including:

- Further clarity was need about whether the term 'current market prices' included estimated current market prices where market information would be not available;
- Clarification was needed about what measure should be used when there was inadequate market data available to provide reliable measurement;
- The fact that a cost-based measurement was not relevant in specific circumstances should not automatically lead to the conclusion that an item should be measured at an exit price. It should be considered whether a cash-flow based measurement would instead be relevant in these circumstances; and
- Measurement should be based on future cash flows and if they were not verifiable, measurement should be based on historical cost in an appropriate and consistent way.

One constituent commented that there were contracts which could meet conditions (a), (b) or (c) (as stated under Question 14) and yet cost might still be the best measure. The use of fair value for some contracts under current standards would reflect the opportunity cost rather than a relevant measure of future cash flows.

EFRAG's response to constituents' comments

EFRAG amended the comment letter to include the suggestion that when current market prices were not available and the inputs to cash-flow based measurements were not verifiable, historical cost might provide the most useful information.

EFRAG believed that some comments received reflected the need for conceptual clarification of cash-flow based measurements; EFRAG considered this issue in relation to Question 13.

Question 15 – Additional measurement comments

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

Question 15 of the DP asked about further comments on the discussion of measurement in Section 6 *Measurement*. EFRAG did not have any further comments on the discussion of measurement.

Constituents' comments

Constituents raised a number of comments, including:

- The term 'measurement' in the DP should be replaced with the more precise term 'measurement basis'.
- The IASB should clarify which measurement bases were considered current values and be more precise on whether measures represented a market perspective or an entity perspective.
- The DP should include a fuller debate on the relevance and usefulness of different measurement bases, especially entity-specific versus market-based and entry versus exit prices.
- The Conceptual Framework should provide a rationale for the circumstances in which Standards should require a measurement basis that takes account of price changes.
- The Conceptual Framework should contain substantial discussion of the notions of expected value (i.e. outcome versus best estimate).
- The DP's discussion of deprival value is too short. Also, conceptually non-exchange transactions should be considered as exchanges with different values.
- The extension of the use of 'probability weighted average' outcomes ('expected outcome' approach) would in general not be useful because the information provided by this method would invariably be different from the final outcome. In most cases an approach which would combine a probability threshold for recognition in conjunction with measurement on the basis of the most likely outcome was more useful to users.

EFRAG's response to constituents' comments

EFRAG amended the comment letter to address the issues mentioned by respondents.

EFRAG thus included in its comment letter that:

- The term 'measurement' in the DP should be replaced with the more precise term 'measurement basis'.
- A fuller debate on the relevance and usefulness of different measurement bases was needed, especially on entity-specific versus market-based measurement basis and entry versus exit prices.
- The Conceptual Framework should provide a rationale for the circumstances in which Standards should require a measurement basis that would take account of price changes.
- The discussion of cash-flow based measurement for liabilities without stated terms did not address properly which attributes a cash-flow based measurement was aiming to reflect.
- The Conceptual Framework should contain a discussion of the notions of expected value versus best estimate.

EFRAG did, however, not specifically ask for a more thorough discussion of deprival value, as it considered this to be included in its request for a fuller debate on the relevance and usefulness of different measurement bases.

Similarly, in relation to the use of probability weighted averages, the response included in EFRAG's final comment letter was broader than the issue raised by constituents. In its final comment letter EFRAG asked for a substantial discussion of the notions of expected value versus 'best estimate'.

Section 7 – Presentation and Disclosure

Question 16 – Presentation and disclosure guidance

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

The DP proposed that presentation and disclosure guidance should be included in the Conceptual Framework. EFRAG agreed with the proposals, but thought that more guidance was needed for some areas.

Constituents' comments

One respondent suggested that, in line with IAS 1, it should be made clear that where a reporting entity disclosed expenses by function it should also disclose expenses by nature in the notes.

Several respondents commented on the scope of the guidance in the DP.

One respondent considered that it would be helpful if the Conceptual Framework could identify the boundary of financial reporting and distinguish between financial statements and other financial reports. Another respondent thought that the Conceptual Framework should not only consider disclosure in relation to financial statements – but in relation to financial reporting, as the Conceptual Framework was for financial reporting.

Disclosure overload was an issue that concerned several respondents. Some thought that including all disclosure requirements in one Standard would help solving the problem while others had a different view. Comments were also provided on how closely presentation and disclosure were related.

Some respondents commented on the objectives of presentation and disclosure. Some further commented that the IASB should explain the purpose of each primary statement.

Different views were presented on forward-looking information. Some respondents supported having forward-looking information in the notes. One of the reasons provided was that this information could be relevant for some unrecognised assets and liabilities. Other respondents thought that forward-looking information should be limited. One constituent specifically suggested that the IASB should be aware that any information about the future could be

EFRAG's response to constituents' comments

EFRAG considered that requirements on specific disclosure that might be necessary when expenses were presented according to function should be dealt with on a standards level. EFRAG therefore did not amend its preliminary position to reflect the related comment.

EFRAG thought that in order to provide some guidance for disclosure, some boundaries had to be set. EFRAG therefore recommended that forward looking information should only be provided for recognised items to the extent that the disclosure supported the reported figures. On that basis, EFRAG did not amend the final comment letter in relation to constituents' suggestions to have either more or less forward looking information.

While it could be useful to consider financial reporting and not just financial statements in the DP, EFRAG noted that the IASB had chosen to limit the project to financial statements in order to be able to revise the Conceptual Framework within a few years. EFRAG agreed with this approach. Accordingly, EFRAG did not amend the comment letter for the suggestion that the IASB should consider implications for financial reporting and not only financial statements.

EFRAG decided to include in its final comment letter that relevance (and not only faithful representation) should also be considered in relation to offsetting.

Question 16 – Presentation and disclosure guidance
EFRAG's tentative views and constituents' comments

detrimental to entities, particularly when their major competitors would not be subject to the same constraints.

One respondent disagreed that offsetting should be required only on the grounds of faithful representation and cost/benefit. The respondent believed that relevance should also be a consideration.

EFRAG's response to constituents' comments

Question 17 – Materiality

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG thought that more general guidance on materiality could be included in the Conceptual Framework. However, more specific guidance should be provided somewhere else in order to avoid the Conceptual Framework becoming an accounting textbook.

Constituents' comments

The majority of comments received were broadly in line with EFRAG's preliminary position.

One respondent requested that the Conceptual Framework made an explicit reference to the disclosure of immaterial information as it was a source of clutter in annual reports.

Another respondent thought that the Conceptual Framework should note that the fact that the entity did not have an asset or liability or that it did not enter into particular transactions might be material to understanding the entity's position and performance.

EFRAG's response to constituents' comments

EFRAG acknowledged that its preliminary views were generally supported by respondents and therefore maintained them in its final comment letter.

EFRAG disagreed with the request for the Conceptual Framework to state explicitly that the disclosure of immaterial information would be a source of clutter in annual reports. EFRAG believed that such a statement would be better placed in IAS 1. Determining what information is immaterial could depend on the particular circumstances and it might therefore be more an issue when preparing financial statements than when setting Standards.

EFRAG did not amend its final comment letter in relation to the comment that information about assets and liabilities the entity did not have might be relevant. EFRAG thought that such information, if material, would often relate to risk (about which the DP already proposed to provide information).

Question 18 – Communication principles

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed that communication principles should be part of the Conceptual Framework and generally agreed with the principles suggested.

Constituents' comments

The views of many constituents were broadly in line with EFRAG's draft comment letter. Two constituents did not agree that it was useful to include a discussion of communication in the Conceptual Framework. One of these thought that a debate about the purpose and usefulness of disclosure was needed before considering how to communicate information.

Another respondent thought that information provided should be concise, disclosure guidance should not result in the duplication of the same information in different parts of the financial report (the DP only proposed different parts of the financial statements) and disclosure should be current.

One respondent also suggested that communication principles should include the consistent application of terminology in the interest of consistent application and enforcement.

One respondent agreed with the inclusion of communication principles in the Conceptual Framework but thought they should cover financial reporting rather than financial statements.

One constituent agreed with the communication principles, but suggested that further analysis might help to identify more fundamental concepts. The constituent provided detailed proposals in this area.

EFRAG's response to constituents' comments

Based on the comments received, EFRAG decided to include in its final comment letter a suggestion that information should be concise and make use of a consistent application of terminology.

EFRAG noted that the scope of the DP only included financial statements. Accordingly, EFRAG did not believe that the project should deal with whether information can be presented in other parts of the financial report.

EFRAG did not amend its final comment letter in relation to the request that disclosure should be current. EFRAG thought that if information would be relevant, it was not necessary to add that it should be current.

EFRAG considered the detailed proposals provided by one constituent to be too detailed for the Conceptual Framework.

Section 8 – Presentation in the statement of comprehensive income – profit or loss and other comprehensive income (OCI)

Question 19 – Total or subtotal for profit or loss

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the IASB that the Conceptual Framework should require profit or loss to be presented.

Constituents' comments

All but one of the respondents to this question agreed with EFRAG's preliminary response that the Conceptual Framework should require profit or loss to be presented. The respondent that did not agree was not convinced that profit or loss was conceptually based and thought that the strong support for it could be due to tradition.

Several respondents thought that the Conceptual Framework should describe/define/explain the objectives of presenting profit or loss or OCI.

Some respondents found it unfortunate that the DP did not address the presentation in financial statements. One respondent saw the increasing use of and discussion around the use of subtotal measures as a proof that performance and subtotals should be addressed in detail and soon at least on a standards level.

EFRAG's response to constituents' comments

EFRAG noted that academic research had found that users consider the profit or loss (sub)total to be more useful than total comprehensive income. It therefore maintained its position that profit or loss should be presented.

EFRAG acknowledged that several respondents thought that the IASB should state the objective of profit or loss. EFRAG therefore decided to amend its comment letter to ask for a definition/description of what profit or loss should depict, so that it could play its role of a primary performance metric that would be meaningful in financial communication.

EFRAG also thought that an entity's business model should play a role in defining primary performance.

Question 20 – Recycling

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

In its draft comment letter, EFRAG thought that all items presented in OCI should qualify for recycling to profit or loss unless recycling would not provide relevant information in profit or loss.

Constituents' comments

The majority of constituents broadly agreed with EFRAG's preliminary position. Some felt that all items presented in OCI should eventually be recycled; others believed that any exception to recycling, when appropriate, should be dealt with on a standards level.

A number of constituents touched on the issue of the objective of presenting profit or loss. One constituent was unable to take a position on Question 20 before understanding the concept of OCI.

Some respondents explicitly disagreed with EFRAG (and the IASB's) position. One disagreed with recycling except for fair value gains or losses on effective hedges, which should be recycled when the hedged transaction is recognised in profit or loss. Another thought that recycling made it more difficult to understand the financial statement, as the same item would be recognised three times – once in OCI, then again when derecognised from OCI and third time when recognised in profit or loss. A third thought that it would only be possible to decide on recycling when the objectives of profit or loss and OCI had been defined.

EFRAG's response to constituents' comments

EFRAG agreed with the respondent that noted that decisions on recycling would have to follow decisions on the objectives of profit or loss and OCI.

In the absence of such objectives EFRAG maintained its view that the Conceptual Framework should require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss (i.e. recycled).

EFRAG acknowledged that this would result in some items being recognised more than once in the statement of comprehensive income. However, it noted that recycling of some items would, in many cases, be necessary in order for profit or loss to be a main indicator of an entity's performance.

Question 21 – Approaches to OCI and recycling

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG supported the broad approach (Approach 2B) to describe which items could be included in OCI.

EFRAG believed an entity's business model should play a role in defining primary performance and thus which items of income and expense should go to profit or loss and which into OCI. Therefore, EFRAG thought the Conceptual Framework should not artificially limit the IASB's possibilities for defining the primary performance, reflected in profit or loss.

Constituents' comments

There were three broad groups of respondents:

- Those who supported neither the narrow nor the broad approach suggested in the DP. They generally thought that the objective of profit or loss and/or OCI should be developed instead of trying to explain current practice;
- Those who supported the narrow approach as they conceptually preferred this to the broader approach suggested in the DP; and
- Those who supported the broader approach. An argument for this approach was that it could lead to a similar outcome as current practice.

One respondent believed that all income and expense should be reported in profit or loss unless their exclusion would be required by an accounting Standard. This respondent believed that the treatment of such income and expenditure should depend on the reasons of its exclusion.

EFRAG's response to constituents' comments

EFRAG noted that many respondents thought that it was necessary to explain the objective of profit or loss. EFRAG therefore decided to ask the IASB for such an explanation (this was included in EFRAG's response to Question 19).

In the absence of an objective of profit or loss (or OCI), EFRAG maintained its support for the broader approach suggested in the DP. Contrary to some constituents, EFRAG's support was not based on the fact that this approach would result in a similar outcome as current practice. Instead EFRAG supported the approach because it would not artificially limit what would be reported in OCI.

Section 9 – Other issues

Question 22 – Chapters 1 and 3 of the existing Conceptual Framework

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG thought that the first chapters of the Conceptual Framework should be revised. EFRAG believed that it should be clear from the first chapters that the objective of assessing stewardship was as important as assessing the prospects for future cash flows. Reliability should be reintroduced as a concept and prudence should be built into IFRS.

Constituents' comments

Some constituents broadly agreed with the position expressed in EFRAG's draft comment letter in relation to reliability, stewardship and prudence.

Although broadly agreeing with EFRAG's draft response a respondent, thought that the IASB should define prudence and explain how it differed from neutrality and from regulatory prudential concepts. In addition the Conceptual Framework should explain how the concept would be relevant to standards setters in developing standards.

Two respondents though that the role of stewardship was correctly reflected in the existing Conceptual Framework. One of these respondents was also against resurrection of prudence and reliability without having clear evidence that the changes introduced in 2010 had caused imprudent and/or unreliable financial information.

One respondent could not provide a view on 'stewardship' in the absence of common understanding of the term and its implications on current IFRS. On reliability it considered the term to be included in 'faithful representation' and reintroducing reliability into the Conceptual Framework would be redundant. The respondent did not oppose the reintroduction of prudence as long as it would not harm transparency and comparability or result in hidden reserves.

On stewardship, a respondent believed that it was important to clarify that financial reporting had a dual primary role, but thought that this could be secured without major changes by clarifying the intention of paragraph OB4 in the 2010 Framework.

EFRAG's response to constituents' comments

EFRAG noted that two respondents did not think the concept of prudence should be reintroduced unless there was evidence that that removal of the reference to prudence in 2010 had resulted in imprudent and/or unreliable financial information. EFRAG did not have such evidence. It noted that the inclusion of prudence in the Conceptual Framework was particularly relevant in relation to standard setting. Effects of removing the term would therefore only be reflected in Standards in the longer run. EFRAG noted that current Standards reflect prudence but that prudence was interpreted differently by different people. To ensure consistency in standard setting, it was therefore beneficial to include the concept in the Conceptual Framework and explain it.

Some constituents thought that 'prudence' should be defined. EFRAG noted that it had proposed a definition in its draft comment letter and it decided to maintain this proposal in its final comment letter. EFRAG noted that constituents had different views on whether prudence could result in neutral information. EFRAG thought that prudence should not conflict with neutrality. It therefore decided to include in its final comment letter that prudence should be explained after neutrality, in the same manner as in the pre-2010 Conceptual Framework.

On the concept of stewardship, EFRAG decided to explain how it interpreted this term, particularly how it considered 'stewardship' to be different from 'accountability'. EFRAG noted that the objective of assessing stewardship could not be subsumed in the objective of assessing future cash flows, as the two objectives could conflict. EFRAG discussed whether either the objective of assessing stewardship or the objective of assessing future cash flows should have priority in case of a conflict. However, it decided that information should be provided that could fulfil both

**Question 22 – Chapters 1 and 3 of the existing Conceptual Framework
(continued)**

EFRAG's tentative views and constituents' comments

This respondent also did not think it was necessary to reinstate reliability. However, prudence should be reinstated and explained in an appropriately precise way that would achieve the desired objective and leave neutrality as a concept in place and not undermined. Another respondent thought that prudence would introduce bias and encouraged the IASB to clarify if its intention was that all future Standards should be strictly neutral.

One respondent thought that EFRAG should express more strongly the point that prudence and stewardship should be addressed and defined in the review of the Conceptual Framework.

One respondent thought that the assessment of stewardship should have primacy over assessments of future cash flows. The respondent considered shareholders to be the primary users of financial statements. On reliability and prudence it has similar views to those expressed in EFRAG's draft comment letter.

Two respondents did not think that Chapters 1 and 3 should be amended. One of these respondents, however, thought that it should be considered to amend the Chapters in the future.

One respondent thought that also auditability should be covered in the Conceptual Framework.

EFRAG's response to constituents' comments

objectives.

Question 23 – The business model

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG expressed a view that the business model notion should be referred to in IASB's financial reporting requirements on a systematic basis and thus be part of the IASB's Conceptual Framework.

Constituents' comments

Many constituents believed that the business model should be included in the Conceptual Framework and should have a prominent role in standard-setting.

One agreed that the business model should be included in the Conceptual Framework, but thought that it should have a minor role in standard-setting.

A number of constituents thought that the business model should play a minor role in standard-setting, it should not be included in the Conceptual Framework and it should be used at the standards level only.

EFRAG's response to constituents' comments

EFRAG noted that there were different views on what to include in the Conceptual Framework in relation to the business model. EFRAG decided to maintain its preliminary position.

Question 24 – Unit of account

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG generally agreed with the DP but thought that the IASB should commit itself more explicitly to consider the unit of account in relation to each Standard.

Constituents' comments

Four constituents agreed with the DP. One noted that it would be difficult to define a unit of account in the Conceptual Framework which would be appropriate in all circumstances.

One constituent concurred with the response in EFRAG's draft comment letter.

One constituent thought that that it might be difficult to develop a generic model for the unit of account, but it would be useful for the Conceptual Framework either to commit the IASB to address the unit of account question in each Standard or to include a rebuttable presumption about it in the Conceptual Framework. Another constituent felt that the Conceptual Framework should also require that Standards clearly identified the unit of account that had been selected, and the reasons for its selection.

Some constituents believed that additional guidance on the unit of account should be included in the Conceptual Framework; one thought that the additional guidance should be on a high-level only to guide other Standards. Another thought that more guidance on the unit of account should be included, but this work should not be rushed and should therefore take place during a later revision of the Conceptual Framework.

One respondent suggested that there might be little or no additional relevance in recognising an asset or liability that is inseparable. Another thought that the revised Conceptual Framework should state that normally the unit of account would reflect the individually identifiable economic resource or the individually identifiable obligation to transfer an economic resource. A portfolio approach would thus be an exception.

EFRAG's response to constituents' comments

Based on the comments from constituents, EFRAG revised its draft comment letter to state that the Basis for Conclusions to Standards should identify the unit of account that had been selected and the reasons for its selection.

EFRAG noted that some constituents thought the Conceptual Framework should say more about the unit of account. Many respondents, however, did not further explain what the Conceptual Framework should say. EFRAG was thus not able to provide further directions to the IASB than what it had noted in its draft comment letter.

On the comment that there might be little or no additional relevance in recognising an asset or liability that was inseparable, EFRAG was concerned about how the inseparability should be determined. If reference, for example, was made to legal inseparability the concept could work for many financial instruments, but it would not be sensible for many physical assets. EFRAG therefore decided not to include this comment in its final comment letter.

On the comment that a portfolio approach would be an exception, EFRAG was concerned that this could be understood to mean that tangible assets should be split into identifiable rights. EFRAG therefore decided not to reflect this comment in its final comment letter.

Question 25 – Going concern

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed with the situations identified in the DP. However, EFRAG thought that the link between the going concern assumption and concepts such as 'practically unconditional' and 'no realistic alternative' should be explained.

Constituents' comments

One respondent agreed with the DP, another concurred with the response in EFRAG's draft comment letter.

Two constituents raised similar fears that, apart from a passing mention in specific paragraphs, reference to the going concern might be deleted from the Conceptual Framework. These constituents thought that it was important that the Conceptual Framework continued to reflect the concept. One suggested that this could be done in relation to the discussion of relevance.

Two constituent specifically believed that the Conceptual Framework should provide guidance for situations where an entity could not be considered a going concern; another considered that such guidance would be useful at a standard level.

One respondent thought that going concern was an accounting concept and there was uncertainty in practice on how to understand it, therefore the IASB should properly define and describe it in the Conceptual Framework.

Another constituent considered that the going concern assumption also had a relevant role in the context or presentation (e.g. distinction between current and non-current line items).

EFRAG's response to constituents' comments

After considering constituents' comments, EFRAG amended its final comment letter to state that the going concern notion should continue to be considered as a fundamental underlying assumption and highlighted in the Conceptual Framework.

EFRAG considered that guidance for entities that are not going concerns would be best included in a Standard rather than in the Conceptual Framework; consequently EFRAG decided not to ask for guidance on this issue in its final comment letter.

Question 26 – Capital maintenance

EFRAG's tentative views and constituents' comments

EFRAG's tentative position

EFRAG agreed that the IASB should defer its work on capital maintenance until it would consider how to account for high inflation.

Constituents' comments

Several constituents noted that the aspect of capital maintenance was (much) broader than how to account for high inflation.

One noted that capital maintenance was something that capital providers should consider in evaluating the quality of predicted cash flows, but it should not be built into measurement.

Another respondent noted that until the IASB would consider hyperinflation it might find it helpful to work in the shorter term on defining capital and better explaining the nature of the capital.

One constituent thought that the issue of capital maintenance should be explored before a standard on hyperinflation was issued; another constituent agreed in practice with the DP, but thought that the Conceptual Framework should be developed on an issue before a Standard would be developed.

One constituent thought that the Conceptual Framework should recognise that IFRS was based on a financial capital maintenance concept, rather than give the impression that the question was an open one, which in practice it was not. Another respondent believed that current Standards reflect a mix of capital maintenance approaches.

EFRAG's response to constituents' comments

In response to constituents' comments, EFRAG amended its final comment letter to make it clear that EFRAG noted that capital maintenance was more than an issue of accounting for high inflation.

However, EFRAG maintained its position that it still seemed most beneficial to consider the issue when considering how to account for high inflation.

Appendix – List of comment letters

National Standard Setters

Austrian Financial Reporting and Auditing Committee (AFRAC)
Accounting Standards Committee of Germany (ASCG)
Dutch Accounting Standards Board (DASB)
Danish Accounting Standards Committee (DASC)
Financial Reporting Council (FRC)
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)
The Italian Standard Setter (OIC)
Norwegian Accounting Standards Board (NASB)
Polish Accounting Standards Committee (PASC)

Academics and academic associations

European Accounting Association (EAA)
Colin Haslam
Martin Schmidt

Enforcers and authorities

European Banking Authority (EBA)
European Securities and Markets Authority (ESMA)

Preparers and preparer organisations

Association of British Insurers (ABI)
Association for Financial Markets in Europe (AFME)
Allianz
BusinessEurope
German Insurance Association (GDV)
Insurance Europe

Auditors and associations of accountants

Federation of European Accountants (FEE)
Institute of Chartered Accountants in England and
Wales (ICAEW)