

JOINT OUTREACH EVENT

IASB EXPOSURE DRAFT ED/2015/3

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

AMSTERDAM

5 OCTOBER 2015

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

Joint Outreach Event

This feedback statement has been prepared for the convenience of European constituents to summarise a joint outreach event held by EFRAG and the Dutch Accounting Standards Board (DASB), in cooperation with the IASB, on 5 October 2015.

The joint outreach event was chaired by Peter Sampers, Chairman of the DASB and member of the EFRAG Board.

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

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

Hans Hoogervorst (IASB Chairman) and Rachel Knubley (IASB Technical Principal) presented the Exposure Draft on selected issues and Françoise Flores (EFRAG TEG Chairman) summarised EFRAG's document for public consultation. An open debate then took place with participants.

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

Issues covered

Participants discussed the following issues:

- the objective of general purpose financial reporting and qualitative characteristics of useful financial information;
- performance reporting, presentation and disclosures; and
- other issues.

Comments received

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

Some participants noted that the concept of stewardship can be interpreted broadly to include corporate social responsibility, child labour and ethics.

Stewardship is considered to be similar to accountability.

The Exposure Draft gives greater prominence than the existing Conceptual Framework to providing information that can be used to assess management's stewardship of an entity's resources in the description of the objective of financial reporting. Several participants discussed what is meant by the term 'stewardship'. A participant referred to EFRAG's paper on stewardship¹ and noted that, in that paper, the term is considered to be similar to accountability. Another participant felt that the concept was usually interpreted more broadly, also referring to corporate social responsibility, child labour and ethics. The IASB Chairman noted that the Exposure Draft only attempts to describe stewardship in relation to financial reporting. He agreed that stewardship and accountability could be used interchangeably and underlined the importance of clearly explaining the meaning of the term to support its translation into other languages.

Some participants stated that the consequences of using the concept of stewardship for future standard setting were not clear.

Several participants asked about the interaction between stewardship and providing decision-useful information. The IASB Chairman noted that he does not believe that giving greater prominence to the concept of stewardship within the overall objective of financial reporting will have a significant effect on standard setting, because the IASB already considers the need for information that will help in the assessment of stewardship when developing standards. He also noted that the IASB already interprets the notion of buy-hold-sell decisions broadly. A participant stated that this was not clear in the Exposure Draft. The EFRAG TEG Chairman noted that the IASB rejected, in the Basis for Conclusions of the Exposure Draft, the idea of identifying the provision of information to help assess management's stewardship as an additional, and equally prominent, objective of financial reporting.

Some participants believed management's conflict of interest should be further developed by the IASB.

A participant noted that very few stakeholders would object to including a reference to stewardship in the Conceptual Framework. However, he thought it was important to address the potential conflict of interest between the managers and owners of an entity that make information about stewardship and accountability necessary. He therefore recommended to

¹ Joint EFRAG, ANC, ASCG, FRC, and OIC Bulletin *Accountability and the Objective of Financial Reporting*, September 2013.

further develop how the conflict of interest is addressed in standard setting.

A participant stated that the choice of measurement basis may depend on whether users need to assess past or future management performance.

A participant expressed the view that one of the key challenges for stewardship was related to the choice of measurement basis. In particular, an investor would want to know what management has done with capital provided in the past (which implies cost accounting) and also what he can expect from the future (which implies current value accounting). Both the IASB Chairman and the EFRAG TEG Chairman rejected the idea that the concept of stewardship required cost-based accounting.

Some believe that the concept of stewardship refers to a broader group of users than those currently defined as primary users.

A participant noted that, in the past, the standards were written to support the primary users in their assessment of future cash flows. These primary users were assumed to be highly sophisticated users. The participant believed that the concept of stewardship referred to a much broader group of users. The IASB Chairman responded that the IASB considered the public at large to be the IASB's stakeholders. He considered that financial reporting was intended to provide information on what an entity did with people's money.

A preparer observed that users do not focus on IFRS figures and instead rely on non-GAAP information.

A participant noted that, when they discussed their quarterly results with users, the discussions were not about IFRS figures. She thought this indicated that IFRS figures did not provide the information users found interesting and that the information gap between the IFRS figures and what users found interesting should be closed. The IASB Chairman replied that the IASB is issuing general standards. He agreed that industries needed to provide more specific information to its users. He considered that this trend could be worrying if this resulted in the replacement of IFRS by non-GAAP. He referred to the proposals in the Disclosure Initiative project on the use of non-IFRS information in financial reporting.

A majority agreed that the assessment of stewardship could sometimes conflict with the assessment of future cash flows.

The participants were asked the following question:

Do you think that the need to provide useful information for the assessment of stewardship could sometimes conflict with the need to provide useful information for the assessment of future cash flows? A majority agreed.

The Exposure Draft proposes to reintroduce the concept of prudence in the Conceptual Framework. The IASB Chairman noted that EFRAG's position differed from the IASB's only in

relation to the terms used, as the IASB did not rule out the use of asymmetry in the recognition and measurement of assets and liabilities, when this results in useful information. The IASB Technical Principal noted that the IASB rejected the notion of asymmetric prudence because this could be interpreted as requiring the systematic application of asymmetry.

Some participants believed that the lack of clarity in the Exposure Draft may trigger many questions during future standard setting.

A participant felt that the IASB did not make clear choices in relation to prudence. He was concerned that a lack of clarity in the Conceptual Framework would result in questions arising in the future during standard setting. The IASB Chairman replied that a clear choice had been made in the form of strong support for neutrality.

A participant stated that the use of asymmetry in accounting should be maintained in future standard setting.

A participant referred to the use of asymmetry in many standards. He felt that many were satisfied with such asymmetry and would welcome its continued use.

A large majority agreed that prudence should be considered as part of 'neutrality'.

The participants were asked the following question:

Do you think that prudence should be considered as part of 'neutrality'? A large majority agreed.

A majority agreed that the Conceptual Framework should recognise that asymmetric prudence can sometimes be useful.

The participants were asked the following question:

Do you think that the Conceptual Framework should recognise that 'asymmetric prudence' can sometimes be useful?

A majority agreed. One participant, who disagreed, explained that he thought that recognising that asymmetric prudence could sometimes be useful would be in conflict with the other guidance provided in the Conceptual Framework.

The Exposure Draft proposes two fundamental qualitative characteristics: faithful representation and relevance. The IASB Technical Principal noted that the Exposure Draft states that, in cases of high levels of measurement uncertainty, the information provided might not be relevant.

Additional guidance should be given if there is no common understanding of the terms used in the Conceptual

A participant noted that people struggled over the jargon used. He underlined the importance of a common understanding over the meaning of the terms used and that additional guidance was necessary if there was a problem of understanding. Other

Framework.

participants expressed the view that it did not matter whether the IASB used the term ‘reliability’ or the term ‘faithful representation’, and that the disagreement in this area was more about jargon than fundamental principles. The EFRAG TEG Chairman noted the importance of the vocabulary. She referred to the IAS Regulation adopted by the European Union, which uses the terms, ‘relevance’ and ‘reliability’. These terms are therefore applied in each endorsement advice. The EFRAG TEG Chairman stated that the IASB should retain the meaning of the existing terms, but that additional guidance should be provided to improve understanding.

A participant expressed the view that the focus of the debate on distinguishing profit or loss and OCI should be on profit or loss providing relevant insights into performance.

Performance reporting, presentation and disclosures

A participant felt that the IASB should move away from the discussion about the distinction between profit or loss and OCI and focus instead on providing more insights on the relevant attributes of performance, such as what income and expenses are recurring, realised, uncertain and/or related to operating activities. He felt that the use of OCI should be clarified further. He believed that if profit or loss is considered to be the primary source of information about performance, a careful analysis should be performed to assess which elements had to be included in profit or loss, instead of assuming that everything should be included. He referred to current accounting, where it is possible for OCI elements related to currency translation adjustments and available-for-sale financial assets to be recycled 20 years after they are recorded. He questioned whether this would enhance the relevance of the information presented in profit or loss.

The introduction of an Other Comprehensive Balance Sheet was suggested by one participant to reflect different measures at the balance sheet level.

A participant suggested introducing an ‘other comprehensive balance sheet’ which would result in the reflection of two measures for a single item in the balance sheet, without affecting the income statement.

Some stated that users did not understand OCI.

A participant questioned the added value of having the statement of other comprehensive income. He noted that, in the past, the use of one or two statements had been debated. He underlined that users did not use OCI and believed that profit or loss was more important. The EFRAG TEG Chairman agreed that the statement of OCI was unclear for users, but expressed the view that, if the distinction between profit or loss could be clarified, this would improve users’ understanding of the

statement of OCI. The IASB Chairman agreed that many users do not understand or use the information in OCI. That was the main reason that the Exposure Draft proposes a rebuttable presumption that all income or expense should be reported in profit or loss. He expressed the view that OCI should only be used for items that were irrelevant or counterintuitive. OCI should not be perceived as a 'parking space'. However, he acknowledged that this was not how OCI was used in relation to the accounting for insurance contracts or pension plans. He noted that EFRAG's approach was very elegant, but that it would increase the types of items reported in OCI, which could reduce understandability for users.

A participant noted that additional guidance should be given for distinguishing between different events that were recorded in profit or loss.

A participant questioned the limitation on the use of OCI. However, he observed that no one cared about the notes; some people cared about OCI and everyone cared about profit or loss. The IASB Chairman noted that it was an important step to articulate the importance of profit or loss and to place a high hurdle on the use of OCI. However, he felt the use of OCI would remain necessary in standard setting, in order to make progress in accounting.

Other issues

Some participants believed that the lack of clarity in the Exposure Draft may trigger many questions during future standard setting.

A participant felt that the IASB did not make clear choices in the Exposure Draft. He was concerned that a lack of clarity in the Conceptual Framework would result in questions arising in the future during standard setting. Another participant expressed the view that it was very difficult to reach a common understanding of the key principles and that the need for pragmatism was important. The IASB Technical Principal acknowledged that, in many areas, the Exposure Draft does not provide black and white answers. Instead, it requires the IASB to exercise judgement and balance different factors when setting standards. The intention is to support the thought process of the IASB and provide a framework for its decision making.