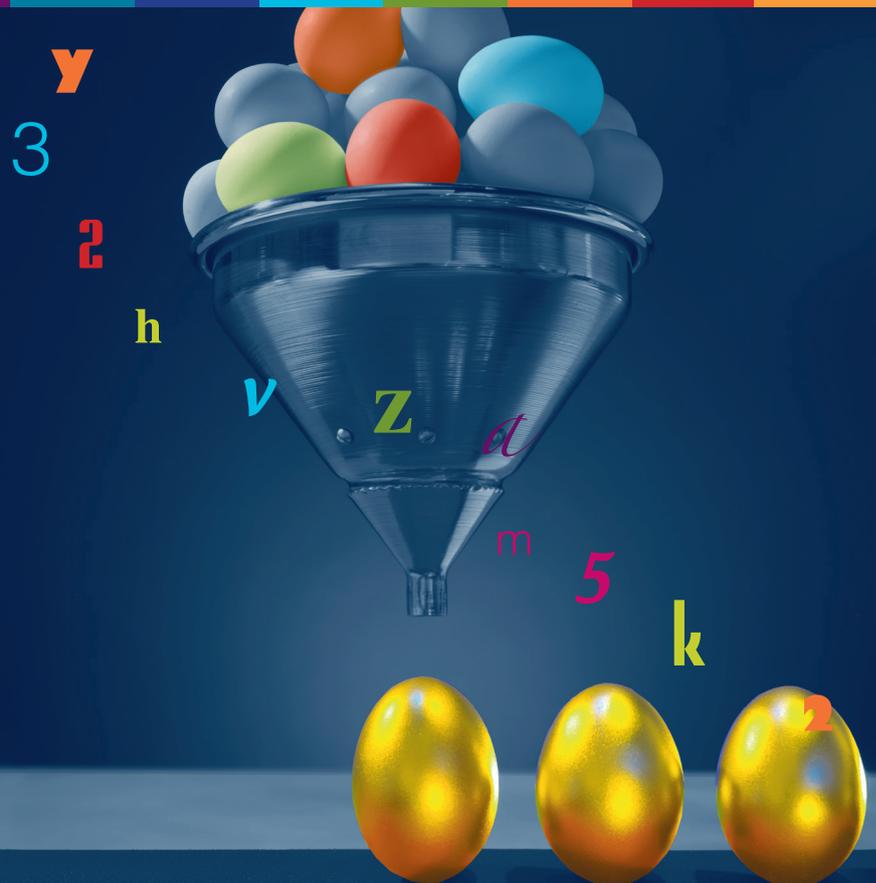


The role of the business model in financial statements

FEEDBACK STATEMENT ON RESEARCH PAPER



SEPTEMBER

2014

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The document is issued jointly by the European Financial Reporting Advisory Group (EFRAG), the French Autorité des Normes Comptables and the UK Financial Reporting Council (FRC).

The purpose of this feedback statement is to provide an overview of the key points made by respondents to the Research Paper ‘The Role of the Business Model in Financial Statements’.

Proactive Work in Europe

The Research Paper is part of Proactive Work carried out in partnership with National Standard Setters in Europe and EFRAG. The partnership aims to ensure resources are used efficiently and to promote stronger coordination at the European level. We aim to influence future standard setting developments by engaging with European constituents and providing timely and effective input to early phases of the IASB's work.

Four strategic aims underpin the partnerships proactive work:

- Engaging with European constituents to ensure we understand their issues and how financial reporting affects them;
- Influencing the development of global financial reporting standards;
- Providing thought leadership in developing the principles and practices that underpin financial reporting; and
- Promoting solutions that improve the quality of information, are practical, and enhance transparency and accountability.

More detailed information about our proactive work and current projects is available on the partner's websites.

Why EFRAG, the ANC and FRC undertook the project

There is increasing attention and discussion about the role an entity's business model should play in financial reporting. Divergent views exist about whether financial reporting should reflect an entity's business model and how this should influence the development of future accounting standards and the selection of accounting policies adopted by entities.

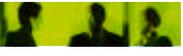
EFRAG, the French and the UK accounting standard setters have undertaken this project in partnership to examine the role of the business model in financial reporting. The joint work ended in December 2013 with the issuance of a Research Paper 'The role of the business model in financial statements' to contribute to the debate on this particular topic.

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OBJECTIVE

- 1 In December 2013, the European Financial Reporting Advisory Group (EFRAG), the French Autorité des Normes Comptables (ANC) and the UK Financial Reporting Council (FRC) published a Research Paper *The Role of the Business Model in Financial Statements*. The Research Paper was issued with the aim of examining the role of the business model in financial reporting.
- 2 The Research Paper was preceded by a Bulletin *The Role of the Business Model in Financial Reporting*, which was issued in June 2013 by EFRAG, the French Autorité des Normes Comptables (ANC), the Accounting Standards Committee of Germany (ASCG), the Italian Organismo Italiano di Contabilità (OIC) and the UK Financial Reporting Council (FRC) as part of a series of papers to promote discussion on topics related to the IFRS Conceptual Framework. The draft Research Paper served as an input for issuing the Bulletin.
- 3 The Research Paper explored:
 - (a) The explicit and implicit use of the business model in IFRS;
 - (b) An assumed meaning of the business model for financial reporting;
 - (c) Attributes of the business model that might justify different accounting treatment and their linkage;
 - (d) Whether similar transactions could be accounted for differently based on the business model;
 - (e) The conceptual discussion on the role of the business model; and
 - (f) The broader implications of the business model for financial reporting.



PROCESS

- 4 The consultation closed on 31 May 2014. After receiving the comments on the Research Paper, the project team analysed the comment letters and presented their findings to the three Boards.
- 5 In April 2014, EFRAG in partnership with the Dutch National Standard Setter (DASB) organised an outreach event in Amsterdam. The project team also participated in meetings organised by Insurance Europe, ESMA and FEE in presenting the content of the Research Paper.



LEVEL OF RESPONSE TO THE RESEARCH PAPER

- 6 EFRAG, the ANC and the FRC (the Partners) received 21 comment letters on the Research Paper. The comment letters were provided by 6 National Standard Setters (including one from outside Europe), 1 Regulator, 13 Membership organisations (banking, insurance, accounting and other industry associations) and 1 International accounting and consulting network.

Executive summary

- 7 The 'business model' notion, as evidenced with the analysis of the implicit examples in the Research Paper and the feedback received from constituents, had for a very long time been an implicit part of IAS/IFRS. The only explicit use of the term 'business model' appeared in the IFRS literature for the first time in 2009, when IFRS 9 *Financial instruments* was issued.
- 8 Responses to the Research Paper reveal that there is a general support for the view expressed in the Research Paper that accounting standards should mandate financial reporting that faithfully represents the business model. Respondents also generally support the tentative position by the Partners that the business model should play a role in financial reporting, including financial statements. Thus, the key question becomes not whether but how the business model notion should be incorporated in the accounting literature.
- 9 The different implicit references in IFRSs show that the business model notion is not always understood in a same way. However, there is overall agreement, as evidenced by the responses received, that if the term business model is used in financial reporting, it focuses on the value creation process of an entity, i.e. how the entity generates cash flows.
- 10 Putting specific emphasis on the business model requires the standard setter to look at a set of elements and indicators, and their relationships, with the objective of accurately portraying the way the entity creates value and generates cash flows. Thus, the business model notion introduces the notion of the 'cash conversion cycle', which is able to provide insight into how value is captured and net cash flows are generated in the normal course of a business. The cash conversion cycle, as presented in the Research Paper, was found by constituents as a helpful tool for the standard setter to distinguish a business model because it could be indicative of the expected cash flows and the risks associated with those cash flows. However, some respondents thought the attributes of the cash conversion cycle should not be limited to those presented in the Research Paper. Other relevant factors could also be indicative of how the entity generates cash flows in the normal course of business.
- 11 Notwithstanding support for the cash conversion cycle, some respondents indicated that it should not be the sole criterion for defining a business model. The cash conversion cycle, they say, is not identifiable in all cases and a more holistic assessment of all key characteristics, beside cash flow generation, should be performed to determine whether different accounting treatments are necessary to appropriately portray an entity's business model. For example, respondents put strong emphasis on having the exposure to various risks considered a key characteristic of the business model.

- 12 Some simple examples, presented in the Research Paper, were designed to distinguish different business models through an analysis of relevant factors and indicators in the cash conversion cycle. However, constituents found the examples oversimplified and thought that more detailed specification of relevant factors might lead to different accounting treatments. The distinction between different business models and different products was also demonstrated by the examples. Some constituents noted that two different business models within the same entity would put especially high requirements on the definition of the business models and their observability in the entity and would increase the disclosure and verifiability requirements.
- 13 The comments on the Research Paper also revealed that the ad hoc implicit/explicit use of the business model notion is not welcomed as it is not always clear why in some cases the notion was used and in others not. There is no consistency from standard to standard. Constituents supported the view that the business model should be addressed in the Conceptual Framework. However, they provided different views on how this should be done. Overall constituents supported the view expressed in the Research Paper that the business model should be identified in the Conceptual Framework as having to be considered by the standard setter in developing standards that provide financial information that meets the fundamental and enhancing qualitative characteristics as they are currently defined.
- 14 Overall there was an agreement with the proposal in the Research Paper that criteria should be introduced to the Conceptual Framework to enable the IASB to identify when the business model notion should be used in a standard. However, some respondents preferred not to include criteria in the Conceptual Framework and suggested instead to include a general statement that the business model should be considered when developing or revising standards to support greater relevance and faithful representation.
- 15 Regarding the implications of the business model for the existing and new IFRS, some respondents supported the tentative view in the Research Paper that the business model should play a role in recognition, initial and subsequent measurement presentation and defining performance and disclosures. However, others were more supportive of the business model playing a role for determining initial and subsequent measurements of assets and liabilities, reporting an entity's financial performance (including the 'use of OCI') and disclosures. Those respondents believed that value creation and cash flow generation and thus the use of the business model was especially important when determining subsequent measurements of assets and liabilities from the perspective of reporting an entity's financial performance (in other words, value creation and cash flow generation was considered important in determining 'measurement' and the 'use of OCI').
- 16 The Bulletin and the Research Paper have been influential in raising the issue on the role of the business model in financial statements and stimulating the debate among constituents. The Partners will be monitoring the progress of its impact on the forthcoming *Conceptual Framework* Exposure Draft.

Summary of responses

17 Respondents to the public consultation provided comments on the following areas:

IMPLICIT USE OF THE BUSINESS MODEL

The Research Paper discussed the explicit use of the term 'business model' in IFRSs. The Research Paper also included implicit examples of earlier use of the business model.

Do you support the analysis of the implicit examples in IFRS? Please explain.

- 18 Overall respondents agreed with the analysis of the implicit examples in IFRSs, presented in the Research Paper.
- 19 One respondent¹ noted that the different implicit references in IFRSs, presented in the Research Paper do not always refer to the business model as meaning the same thing. A similar statement was made by another respondent² who believed that the analysis did not sufficiently distinguish between the requirements in which the term 'business model' was used to refer to the concept of value creation and cash flow generation and the other requirements in which the term was used solely to increase the 'observability' and 'verifiability'.
- 20 One respondent³ believed that the examples relating to IAS 17 *Leases* and IFRIC 13 *Customer Loyalty Programmes* were not very good examples of the business model notion implicitly used in financial reporting. In their view the accounting in those examples was based primarily on the specific facts and circumstances of a transaction and was not due to the business model.

Are you aware of additional implicit examples in IFRS?

- 21 Respondents identified the following additional examples of the implicit use of the business model in IFRS:
- (a) the provisions in IFRS 10 *Consolidated Financial Statements* relating to investment entities – to exempt investment entities from consolidating certain subsidiaries.
 - (b) the current/non-current distinction in IAS 1 *Presentation of Financial Statements*.
 - (c) the presentation of cash flows in IAS 7 *Statement of Cash Flows* - an entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business.

¹ ASCG

² ASBJ

³ DASB

- (d) intangible assets, which fall within IAS 2 *Inventories*, IAS 11 *Construction Contracts*; or IAS 38 *Intangible Assets* depending on the way in which the asset is used within a business model.
- (e) IAS 12 *Income Taxes* – paragraph 51 of IAS 12 requires deferred tax asset and liabilities to be measured based on the tax rules that would apply from the manner in which the entity expects, at the end of the reporting period, to recover the asset or settle the liability.
- (f) IAS 39 *Financial Instruments: Recognition and Measurement* – one respondent⁴ believed that the classification of financial assets in IAS 39 depends upon the business model within which the assets are held. Also in this respondent's view the identification of the financial assets falling into the category of 'held to maturity' depends upon the entity's business model.
- (g) Research and development expenses and plant, equipment and investment in progress are examples where the IASB considered the long-term nature of the business model in the accounting.

Examples of where the Business Model concept should have been explicitly used

- 22 One respondent⁵ believed that in the following two instances the introduction of the business model concept could have enhanced the existing Standards:
- (a) IFRS 10 *Consolidated Financial Statements* - the business model concept could have enhanced the definition of investment entities, and
 - (b) IFRS 11 *Joint Arrangements* - the classification of Joint Arrangements between Joint Operations and Joint Ventures in IFRS 11 could have been easier to implement with an explicit reference to the business model concept. This would have enhanced the identification and classification of the Joint Arrangements.

The Business Model in the Integrated Reporting Framework

- 23 Several constituents⁶ noted in their responses the importance of the business model outside the IFRSs. They noted that the business model was a fundamental concept in the recently issued framework on Integrated Reporting.
- 24 One constituent⁷ believed that using the same concepts of a business model for integrated reporting and financial statements could help to improve the linkage between financial reporting and other forms of reporting.

⁴ Moore Stephens LLP

⁵ FEE

⁶ Swedish Enterprise Accounting Group, EBF, German Banking Industry Committee and DASB

⁷ DASB

Summary:

The implicit references to the business model already existing in the standards are globally accepted by all respondents.

CASH CONVERSION CYCLE

The Research Paper discussed the assumed meaning of the business model, including an analysis of the cash conversion cycle.

The Research Paper included a number of attributes of a business model that differentiate it from other business models to justify different accounting:

- *The length of the activity cycle*
- *How inputs are used*
- *How outputs are used to generate cash*
- *The types of risks related to the activity*
- *The degree of certainty in the generation of cash flows*
- *The degree of capital intensity*

Do you agree with the analysis of the cash conversion cycle? Please explain.

- 25 Overall respondents agreed that the cash conversion cycle could be a helpful tool for determining and distinguishing business models for deriving specific accounting treatments.
- 26 Respondents also agreed with the views expressed in the Research Paper that entities exist to create value and that the cash flows, and the risks associated with them, describe the value creation process.
- 27 Some respondents⁸ agreed with the analysis of the cash conversion cycle, presented in the Research Paper and the attributes of the cash conversion cycle to justify different accounting treatments. One respondent⁹ was uncertain of the merits of the cash flow conversion cycle analysis but agreed that analysing attributes of the business model that help assess how an activity could be able to generate value would be of greater interest for users of financial statements. That respondent agreed with the suggested attributes which distinguish different business models to justify different accounting. One respondent¹⁰ noted that there would be a need for clear guidelines as to how the suggested attributes would be reported to ensure consistency amongst preparers, otherwise comparability would be lost.

⁸ FEE, Quoted Companies Alliance, ACTEO/AFEP/MEDEF

⁹ BUSINESSEUROPE

¹⁰ Quoted Companies Alliance

- 28 One respondent¹¹ believed that the business model was a broader concept than the cash conversion cycle. In their view the meaning of business models should focus on the manner how an entity creates value ('value creation'). However, this respondent agreed that the cash conversion cycle could help to understand the value creation. As a result it can help to determine a business model and the links of the different attributes of a business model.
- 29 One respondent¹² also agreed that the cash conversion cycle could be helpful to identify the 'business model' as it could be indicative of the extent to which entity's activities were exposed to risks through analysis of the expected cash flows. Similarly, another two respondents¹³, also generally agreed that there was a need to discuss which characteristics could be of interest for accounting purposes with specific emphasis on how cash flows were generated.
- 30 One respondent¹⁴ also believed that 'value creation and cash flow generation' was the most relevant characteristic to determine relevant measurement bases of assets and liabilities, and the role of risks should be considered when applying the concept. Accordingly, in the view of this respondent, if the term 'business model' were to be used in the development of accounting standards, it should refer to the meaning of 'value creation and cash flow generation'. In their view the term 'cash flow conversion cycle' stated in EFRAG's Research Paper was intended to have the same meaning as the 'value creation and cash flow generation'.
- 31 One respondent¹⁵ broadly agreed with the analysis, but thought that the interaction between the elements meant this was probably not as useful a tool as it could be. This respondent suggested to have a clearer distinction between the elements in the cycle, e.g. between risks associated with time and other risks affecting cash flows.
- 32 Another respondent¹⁶ agreed with the analysis of the cash conversion cycle, but they were not convinced that this level of detail was necessary in defining the business model.
- 33 Several respondents¹⁷ who did not explicitly comment on the cash conversion cycle, also agreed that the business model should better reflect the entity's value creation process. Those respondents agreed that the business model was encompassing a set of elements and indicators, and their relationships with the objective to accurately portray the way the entity creates value and generates cash flows. They suggested some indicators which in their view would support this common understanding:
- (a) The future cash flows on the assets and liabilities sides and how these will be realized.

¹¹ DASB

¹² ESMA

¹³ Swedish Financial Reporting Board and GDV

¹⁴ ASBJ

¹⁵ Moore Stephens LLP

¹⁶ ICAS

¹⁷ EACB, EBF and German Banking Industry Committee

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- (b) The link between performance and what the financial statements are supposed to represent.
- (c) The risks affecting this performance and the way they are managed.
- (d) The objective of short/medium/long term detention of financial instruments in view of maximizing the return (principal and interests) or the appreciation of capital.
- 34 One respondent¹⁸, who also did not specifically refer to the analysis of the cash conversion cycle, agreed that the discussion should be driven by the objective of determining which characteristics could be of interest for accounting purposes with a specific emphasis on how cash flows are generated.
- 35 One respondent¹⁹ did not agree with the analysis of the cash conversion cycle being the (or the only) way for determining and distinguishing business models for deriving specific accounting treatments. In this respondent's view the analysis did not consider other factors that were important for determining and differentiating business models. For instance, this respondent strongly believed that exposure to various risks was a key characteristic of a business model and should not be considered as part of the value creation but as a separate criterion. A similar view is expressed by other respondents (see paragraph 33 above). In addition, in the view of this respondent the cash conversion cycle could not be determined in all circumstances or does not always help distinguish business models.
- 36 Another respondent²⁰ noted that the linkage between the capital intensity and the appropriate basis for recognition/measurement of transactions did not seem very convincing.
- 37 One constituent²¹ suggested to have a clearer distinction between the elements in the cycle, e.g. between risks associated with time and other risks affecting cash flows.
- 38 One respondent²² believed that a specific accounting treatment should address which variables affect the profitability and investment risk of the economic operation.

¹⁸ Swedish Financial Reporting Board

¹⁹ ASCG

²⁰ FEE

²¹ Moore Stephens LLP

²² ICAC

Summary:

Overall respondents agreed that the cash conversion cycle could be a helpful tool for determining and distinguishing business models for deriving specific accounting treatments. There was also broad support for analysing attributes that help to accurately assess how an activity creates value and generates cash flows. However, the cash conversion cycle was not considered to be the only tool for distinguishing business model.

The exposure to various risks was considered to be a key characteristic of the business model that should be considered as a separate criterion for determining and differentiating business models.

Are there any other attributes to add?

Role of risk

39 The previous section addresses respondents' views on the role of risk.

Other attributes

40 One respondent²³ suggested identifying within the cash conversion cycle those costs that are fixed and variable in nature. In this respondent's view, this would allow users to compare cost bases between entities and also, on a period by period basis, assess how these costs are managed to maximise returns.

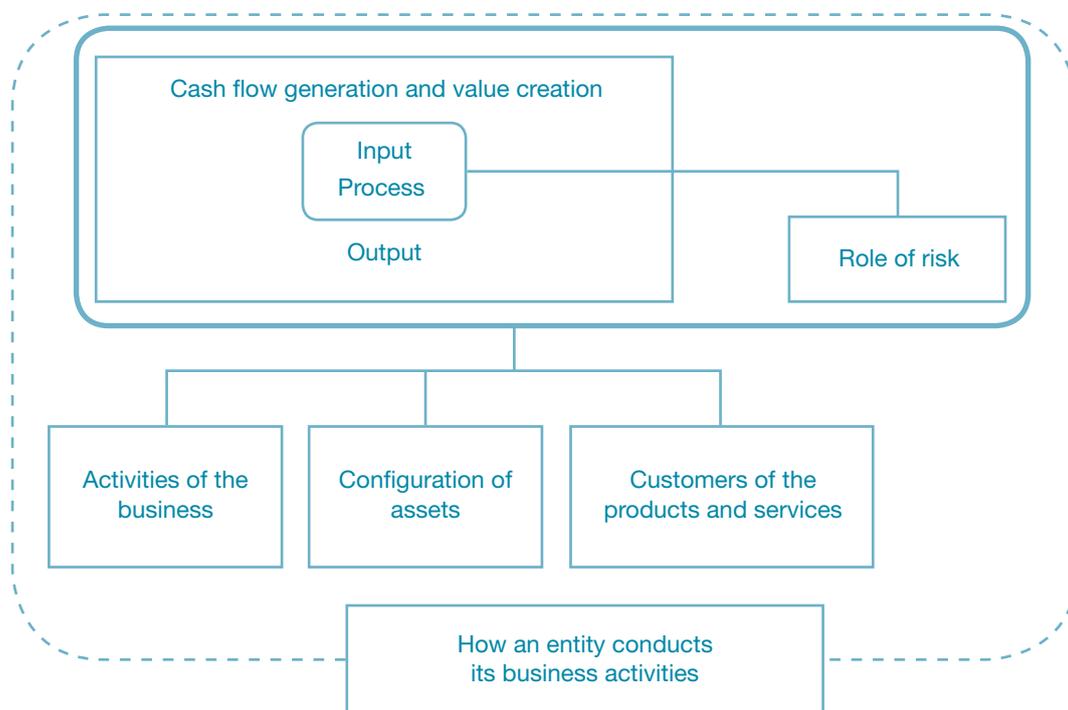
41 Another respondent²⁴ suggested considering the definition of a business in IFRS 3 *Business Combinations* when discussing the attributes of value creation. This respondent believed that the following additional attributes of a business model could help to differentiate one business model from another to justify different accounting:

- (a) manner of value creation;
- (b) the types of markets and customers for the outputs;
- (c) the risks and rewards related to the business;
- (d) the key resources and their configuration;
- (e) the operational processes;

- (f) how management monitors the entity's operations;
- (g) the policies;
- (h) the way the business is organised (organisational form); and
- (i) how an entity will be competitive.

42 One respondent²⁵ believed the business models could also be characterized and differentiated by the way some entities combine assets or assets and liabilities in order to create value.

43 One respondent²⁶ thought that the relationship between the five key characteristics of the business model (as explained in EFRAG's Research Paper) and the way an entity conducts its business activities (as explained in the IASB DP) can be illustrated in the following diagram:



²³ Quoted Companies Alliance

²⁴ DASB

²⁵ FEE

²⁶ ACTEO/AFEP/MEDEF

²⁷ ASBJ

44 This respondent thinks that this diagram indicates the following points:

- (a) Some argue that the way an entity conducts its business activities can simply be replaced with the term 'business model'. However, the term 'business activities' is also understood in various ways. Thus, it would be important to articulate the 'key concepts' in the Conceptual Framework.
- (b) Activities of the business, configuration of assets, and customers of the products and services can be explained as factors that influence the way that value will be created and cash flows will be generated.
- (c) The notion of 'risks' can be explained as they relate to inputs and processes. This explanation would help explain the difference between a case where an entity endeavours to maximise its cash flows solely through an asset's price change risks and the other case where an entity endeavours to maximise its cash flows using its assets together in conducting business activities.
- (d) The term 'business model' should not be characterized by the 'observability' or 'verifiability' at the concept level.

EXAMPLES OF BUSINESS MODELS

The Research Paper also included examples of business models and raised recognition and measurement issues for each example with alternative views.

BANKING EXAMPLE

The Research Paper presented a case where one entity (Entity A) provides loans to customers and holds those loans until maturity and another entity (Entity B) provides loans to customers, packages the loans and sells the package to other financial institutions.

The accounting issue raised in the Research Paper was whether the loans should be accounted similarly based on the case presented. Under View A the recognition and measurement of the loans should differ. Entity A should use amortised cost, while Entity B should use fair value. Under View B the recognition and measurement of the loans should be the same as both entities were holding the same instrument.

Do you think the example describes different business models? Please explain.

- 45 Most respondents²⁷ believed the example highlighted two different business models.
- 46 Three respondents²⁸ noted that in their view the example was falling short of the complexity of an entity's operations. In their view in real life the situation was more complex and considering more details in the example might lead to different conclusions about the accounting.
- 47 One respondent²⁹ was not sure whether the example described business models or different business activities. In their view, holding or selling financial instruments depict different activities, which might belong to a business model but do not describe different business models in general.

Do you support View A or View B? Please explain

Support for View A

- 48 Overall, respondents³⁰ supported View A.
- 49 One respondent³¹ also generally supported View A. However, it noted that in real life the situation was more complex and considering more details in the example might lead to different conclusions. Another respondent³² also noted that there could be details in the example that may lead them in different directions on whether their support view A or view B.
- 50 In the view of one respondent³³ it was not possible to decide whether the activities should be accounted for similarly or differently when the decision was based solely on the cash conversion cycle(s). However, this respondent believed that the activities of the two entities should be accounted for differently as financial reporting should reflect how the entity actually generated cash and should provide the user with relevant information.

Support for view B

- 51 One respondent³⁴ supported View B. Despite the difference in the business model, this respondent considered that using the same accounting treatment would aid comparability. This respondent would prefer amortised cost as an accounting basis for both entity A and B.

²⁷ Swedish Financial Reporting Board, FEE, ICAC, Quoted Companies Alliance, ICAS, BUSINESSEUROPE, DASB, ACTEO/AFEP/MEDEF and Moore Stephens LLP

²⁸ EACB, EBF and German Banking Industry Committee

²⁹ ASCG

³⁰ Quoted Companies Alliance, ICAS, DASB and FEE

³¹ EBF

³² Swedish Financial Reporting Board

³³ ASCG

³⁴ Moore Stephens LLP

Other comments

- 52 Three respondents³⁵ noted in their responses that sales should not be the sole driver of the business model assessment. They thought that information about the sales should be considered in conjunction with other information when assessing the way financial assets were managed, such as how revenue was generated, how risk was managed, historical sale information, reasons of the sales, including regulatory requirements, conditions of the sales, and expectations about future sales activities. In their view considering more details in the example might lead to different conclusions about the accounting.

If the different activities of Entity A and Entity B were both conducted in the same entity, would your answer to the above question be different? If so, why?

- 53 Overall constituents responded that their answer would not change if the different activities of Entity A and Entity B were both conducted in the same entity, as there would still be two distinct business models within the same entity.
- 54 Some constituents noted that having two different business models within the same entity would put especially high requirements on the definition of the business models³⁶ in the entity and would increase the disclosure requirements³⁷.

Summary:

Overall respondents believed that the banking example presented different business models, which would lead to different recognition and measurement of the loans. However, it was noted that even small changes in the example could modify the conclusion and the example did not provide enough detail to be as conclusive as it should be in real practice.

³⁵ EBF, German Banking Industry Committee and EACB

³⁶ Swedish Financial Reporting Board

³⁷ DASB and Quoted Companies Alliance

MOBILE NETWORK OPERATOR EXAMPLE

The Research Paper presented a case where one entity (Entity A) enters into service contracts through direct sales and another entity (Entity B) enters into service contracts through dealers.

The accounting issue raised in the Research Paper was whether the differences between direct and indirect sales should be reflected in financial reporting. Under View A the commissions paid to the agent by Entity B should be capitalised, while the acquisition costs by entity A should be expensed immediately. Under View B both entities should recognise an intangible asset (for the right to recover acquisition costs) or both entities should expense acquisition costs immediately.

Do you think the example describes different business models? Please explain.

- 55 Five³⁸ out of the nine respondents to this question believed the example described different business models.
- 56 Two respondents³⁹ noted that there was insufficient information to help determine whether there were two different business models.
- 57 One respondent⁴⁰ did not think that the example described different business models with regard to different cash conversion cycles.
- 58 One respondent⁴¹ believed that entity A and entity B do not have substantially different business models. Although they used different distribution channels, in their view both entities create value in a similar way.

Do you support View A or View B? Please explain.

Support for View A

- 59 Only one respondent⁴² provided explicit support for view A.

³⁸ ICAC, Quoted Companies Alliance, Moore Stephens LLP, ACTEO/AFEP/MEDEF and Swedish Enterprise Accounting Group

³⁹ FEE and ICAS

⁴⁰ ASCG

⁴¹ DASB

⁴² Quoted Companies Alliance

- 60 In the view of one respondent⁴³ if Entity B reimbursed the dealer for providing a mobile phone to the customer, this should be accounted for in a similar way as Entity A treated the cost of the mobile phones. However, the part of the payment to the dealers for acquisition of a new customer should be accounted differently as this represented the different sales approach of Entity B.

Support for View B

- 61 One respondent⁴⁴ believed that the similarities between the two entities should make it possible that both entities recognise an intangible asset (for the right to recover acquisition costs) and amortise it on a systematic basis consistent with the pattern of expected subscription cash flows.
- 62 One respondent⁴⁵ did not consider it useful or necessary to treat the transactions differently despite the difference in the business model.
- 63 One respondent⁴⁶ generally supported view B. However, it noted that if the telecom operator (entity B) acted more as an agent for the dealer then it would be a different business model which would demand a different accounting method.
- 64 One respondent⁴⁷ noted that under the assumption that the distributor was acting as an agent of Entity B (such that Entity B was the principal in the relationship with the end customers) and assuming that both Entity A and Entity B were entitled to a penalty from the customers in case of early termination, it would seem reasonable that the subsidy (for Entity A) and the commission paid to the dealer (for Entity B) be accounted for in the same way.

Other views

- 65 Some respondents⁴⁸ believed that, regardless of whether there were the same or different business models, different facts and circumstances in this example lead to different accounting treatments. In their view, even rather small differences in business set-up could result in different kinds of risk and levels of risk and therefore lead to different accounting treatments.

If the different sales channels of Entity A and Entity B were both conducted in the same entity, would your answer to the above question be different? If so, why?

- 66 Overall, respondents believed that if the different sales channels were both conducted in the same entity their answer would be the same as if the activities were within separate entities.

⁴³ ICAS

⁴⁴ DASB

⁴⁵ Moore Stephens LLP

⁴⁶ Swedish Enterprise Accounting Group

⁴⁷ FEE

⁴⁸ ASCG and Swedish Financial Reporting Board

Summary:

Overall respondents seemed not to be conclusive on the accounting treatment based on the example provided in the Research Paper. Respondents noted that different facts and circumstances in the example might lead to different accounting treatments.

INSURANCE EXAMPLE

The Research Paper presented a case where one entity (Entity A) issues non-participating contracts. Liability cash flows are independent of the underlying assets and another entity (Entity B) issues participating contracts. Liability cash flows are significantly dependent on asset returns.

The accounting issue raised in the Research Paper was whether accounting should reflect the specifics of those two types of contracts. Under View A the measurement of the insurance liability of Entity A does not need to be consistent with the assets backing these liabilities, while for entity B it should be. Under View B the measurement of the liabilities is based on the terms and conditions of the underlying contract and need not to be on the same basis as the assets backing these liabilities.

Do you think the example describes different business models? Please explain.

- 67 Some respondents⁴⁹ believed that the example described different insurance products: non-participating versus participating contracts rather than different business models. Those different types of contracts have different risk characteristics, profit sharing features and performance patterns. Similarly, one respondent also believed the example did not describe different business models. In view of this respondent⁵⁰ only one unique stable insurance business model with certain variations (i.e. life or non-life; with or without participation in investment returns, etc.) exists.
- 68 Other respondents⁵¹ thought that the example described different business models.
- 69 In the view of one respondent⁵², the differentiation between the different insurance products did not result from different cash conversion cycles.

⁴⁹ ICAS, FFSA, FEE, ASCG, Swedish Financial Reporting Board and Insurance Europe

⁵⁰ GDV

⁵¹ Quoted Companies Alliance, ICAC, DASB, ACTEO/AFEP/MEDEF and Moore Stephens LLP

⁵² ASCG

- 70 Several respondents⁵³ believed that the business model case suggested in the Research Paper seemed to be an over-simplified approach to a complex issue. In their view further analysis would be necessary as it was not possible to capture all insurance products and their characteristics in a simplified example.

Do you support View A or View B? Please explain.

Support for view A

- 71 Four respondents⁵⁴ out of nine supported View A.
- 72 One respondent⁵⁵ believed that the different product types in the example required a different accounting in order to depict the lines of businesses adequately. In their view the risk-sharing was one of the main drivers for the accounting in this example.

Support for view B

- 73 One respondent⁵⁶ supported View B, which suggests the same accounting treatment for the assets despite the difference in the (contractual) linkage with the liabilities. However, it noted that the liability treatment should differ.

Other views

- 74 One respondent⁵⁷ did not believe that either View A or View B were appropriate. However, it noted that irrespective of the contractual linkage, there was an economic relationship between the assets and the insurance contracts liabilities. Therefore, in its view the assets and the liabilities should use a consistent measurement basis in order to avoid any artificial accounting mismatches.
- 75 One respondent⁵⁸ performed comprehensive analysis of further details in the examples. The analysis of those further details determined whether there were any differences in the two business models and how the accounting should differ. In the view of this respondent there was a link between assets and liabilities in both entities and, to avoid accounting mismatches, it suggested that the interest rate risk in both assets and liabilities should be measured at current value with only realized market risks recognised in profit or loss.

If both insurance products of Entity A and Entity B were provided by the same entity, would your answer to the above question be different? If so, why?

- 76 Respondents generally noted that their answer would be no different if the insurance products of Entity A and Entity B were provided by the same entity.

⁵³ ICAEW, French Insurance Association and Insurance Europe

⁵⁴ ICAS, DASB, Insurance Europe and Quoted Companies Alliance

⁵⁵ Swedish Enterprise Accounting Group

⁵⁶ FEE

⁵⁷ ASCG and Swedish Financial Reporting Board

⁵⁸ Swedish Financial Reporting Board

General observations on the examples

- 77 Overall respondents noted that their answer would not change if the different activities/sales channels/insurance products of Entity A and Entity B were both conducted/provided in/by the same entity, as there would still be two distinct business models within the same entity.
- 78 One respondent⁵⁹ noted that in this case the definitions of different business models would be highly important, while two other respondents⁶⁰ noted that having two differing and separately managed and reported business models within the same entity would increase the disclosure requirements, which would on the other hand facilitate users' investment decisions.
- 79 One respondent⁶¹ also provided the following general observations on the examples provided in the Research Paper:
- (a) it seems it is feasible, through a thorough analysis of the business model, to establish the most relevant accounting method;
 - (b) the conclusion of which measurement method to use is quite sensitive to the further specification of relevant factors on a quite detailed level; and
 - (c) consequently, documentation, verifiability and neutrality issues become crucial. The business model has to be observable and if it is decisive for the choice of the accounting method, it has to be auditable.

⁵⁹ Swedish Financial Reporting Board

⁶⁰ DASB and Quoted Companies Alliance

⁶¹ Swedish Financial Reporting Board

Summary:

Overall respondents did not believe that the insurance example presented in the Research Paper was presenting different business models, but rather different products. However, respondents noted that the different product types in the example required a different accounting treatment in order to depict the different economics adequately (i.e. in the cases when there was a linkage between the assets and the liabilities that should be reflected properly in the accounting). However, respondents noted that the example was oversimplified and the conclusion on the measurement method was quite sensitive to the further specification of relevant factors on a quite detailed level. Even rather small differences in business set-up could result in different kinds of risk and levels of risk and therefore lead to different accounting treatments.

Overall there was an agreement among constituents for the three examples that if different activities were conducted in the same entity, there would be two distinct business models within the same entity and those should be accounted differently. However, some constituents noted that two different business models within the same entity would put especially high requirements on the definition of the business models and their observability in the entity and would increase the disclosure and verifiability requirements. In addition, the respondents noted that the examples are rather simplistic and that even small changes in the examples could change the business model perceptions and accounting implications.

PLAYING A ROLE IN FINANCIAL REPORTING

The Research Paper discussed the conceptual debate as to whether the business model should play a role in financial statements. The preceding Bulletin *The Role of the Business Model in Financial Reporting* included a tentative view that the business model should play a role in financial reporting, including financial statements, and asked whether constituents support that view.

Support for the business model playing a role in financial reporting, including financial statements

- 80 Overall, respondents⁶² supported the view that the business model should play a role in financial reporting.
- 81 Respondents pointed the following arguments for using the business model for financial reporting, including financial statements:
- (a) a properly articulated business model would be helpful in communicating management's understanding of the business to the market and thus improve the relationship between investors and management;
 - (b) the business model is an important focus of the 'front-end' of corporate reports and reflecting it in the financial statements would ensure financial and non-financial information was linked.
 - (c) it would allow an assessment of the economic performance of the entities and of their managements' accountability (or stewardship);
 - (d) the notion of the business model encourages a proactive, independent mindset amongst preparers, auditors and users, as it requires them to consider how the business operates and therefore results in a more accurate depiction in the accounts;
 - (e) its use would increase the relevance and reliability of financial information.
- 82 One respondent⁶³ believed that the question whether the business model was useful would depend on issues such as whether the application of the concept could be sufficiently precise, it was stable and verifiable, and neutrality could be assured. However, they noted that the various examples in individual standards showed that there sometimes is a need for entity-specific circumstances to be the decisive factor for a prescribed accounting treatment. In its view, reference to an entity's business model might be a way to achieve this in a consistent manner.
- 83 One respondent⁶⁴ believed that the use of different accounting treatments for different business models should be decided at standard level, based on clear and objective principles, such as in IFRS 9 *Financial Instruments*. However, this respondent acknowledged the risk that the use of different accounting treatments for different business models could harm comparability amongst issuers. Thus it believed there should be a duly justified trade-off between relevance and comparability of the information when deciding on such an approach.

⁶² DASB, EBF, German Banking Industry Committee, EACB, FFSA, ICAS, Quoted Companies Alliance, FEE, BUSINESSEUROPE, GDV, ICAC, ASCG, ACTEO/AFEP/MEDEF, ESMA, Swedish Financial Reporting Board and Insurance Europe

⁶³ Swedish Financial Reporting Board

⁶⁴ ESMA

- 84 One respondent⁶⁵ supported an approach where the effect of the business model on financial statements is minimised due to concerns about consistency, comparability and objectivity. However, in their view the effect of the business model cannot be ignored entirely as there are cases where any attempt to ignore the business model would result in treatments that would not provide useful information and appropriate classification and treatment of items.
- 85 Two respondents⁶⁶ believed that the application of the business model for recognition, measurement, presentation and disclosures should be implemented at the level of individual accounting standard.

Support for considering the business model concept in the Conceptual Framework

- 86 Respondents⁶⁷ also generally supported the view that the business model should be addressed in the Conceptual Framework. However, respondents provided different views on how the business model concept should be considered in the Conceptual Framework.
- 87 Three respondents⁶⁸ believed that introducing the business model in the Conceptual Framework should not override the existing qualitative characteristics of financial statements; rather it should complement them. One respondent⁶⁹ suggested that the notion of the business model should be included in the IASB's Conceptual Framework as an enhancing element for faithful representation instead of identifying specific criteria or including a stand-alone characteristic.
- 88 One respondent⁷⁰ did not believe that the business model must be defined in the Conceptual Framework. Another respondent⁷¹ was concerned that introducing too broad a definition of 'business model' in the Conceptual Framework might lead to too many different accounting models that are not justified by fundamental differences between business models. It believed that a general provision in the Conceptual Framework that the 'business model' should be assessed when setting individual standards could be sufficient. However, two other respondents⁷² believed that the overall concept should be defined in the Conceptual Framework, while another respondent⁷³ thought the Conceptual Framework should provide a high-level description of what the notion of business model means. It should indicate that the business model is a notion orientated towards the creation of value and is to be characterised by the features proposed in the Research Paper, based on the cash flow conversion cycle.

⁶⁵ Moore Stephens LLP

⁶⁶ FFSA and GDV

⁶⁷ DASB, EBF, German Banking Industry Committee, EACB, FFSA, FEE, Insurance Europe, GDV, ASCG, ACTEO/AFEP/MEDEF

⁶⁸ FEE, GDV and ASCG

⁶⁹ ASCG

⁷⁰ Insurance Europe

⁷¹ ESMA

⁷² FEE and Quoted Companies Alliance

⁷³ ACTEO/AFEP/MEDEF

89 Two respondents⁷⁴ suggested that a distinction between business model and management intent should be made in the Conceptual Framework. Another respondent⁷⁵ also noted in their response the lack of a proper distinction between ‘business model’ and ‘management intent’, while another respondent⁷⁶ thought that that addressing verifiability more prominently could help to address the concerns about the lack of distinction between business model and management intent.

Support for the business model playing a role in financial reporting, but not explicitly in the Conceptual Framework

90 One respondent⁷⁷ believed that business models already play a significant role in financial reporting. It supported this role and believed that entity’s reporting should reflect its business model so that the model’s success or failure could be properly assessed. It did not advocate dealing explicitly with the role of the business model in the Conceptual Framework as, in its view, this was not an appropriate approach.

No support for the explicit use of the business model playing a role in financial reporting, including financial statements

91 Two respondents⁷⁸ did not support the conclusions in the Research Paper. One of this respondents⁷⁹ believed that the introduction of a more explicit use of business model in financial reporting would generally not enhance transparency and comparability of financial reporting but could rather lead to the opposite. Furthermore, it is concerned that a shift towards a business model approach in line with the Research Paper would give rise to an endless period of assessing consequences for recognition, measurement, presentation and disclosures, which would severely delay the process of finalising other much awaited standards. The other respondent⁸⁰ was concerned that a frequent use of business model thinking in financial reporting standard-setting might lead to a development of special rules for specific business models, which could be detrimental to the idea of principle based Standards.

⁷⁴ GDV and FEE

⁷⁵ ESMA

⁷⁶ DASB

⁷⁷ ICAEW

⁷⁸ NASB and Swedish Enterprise Accounting Group

⁷⁹ NASB

⁸⁰ Swedish Enterprise Accounting Group

Other views

- 92 One respondent⁸¹ did not think that the term ‘business model’ should be used in the Conceptual Framework. That respondent was concerned that the term was used not just in accounting Standards but also in various contexts with different meanings throughout the business world and without clear definition it would give rise to misunderstandings. Accordingly, instead of trying to use the term without a clear definition, this respondent suggested that the Conceptual Framework should explain the ‘key concepts’. However, if the term ‘business model’ were to be used in the development of accounting standards and determination of relevant measurement bases of assets and liabilities, it should refer to the meaning of ‘value creation and cash flow generation’. For constituent’s view on the relationship between the five key characteristics of the business model (as explained in EFRAG’s Research Paper in paragraph 3.11) and the way an entity conducts its business activities (as explained in the IASB DP), see paragraphs 37 and 38.

Summary:

Overall respondents reaffirmed the tentative position by the Partners that the business model should play a role in financial reporting, including financial statements.

Respondents also generally supported the view that the business model should be addressed in the Conceptual Framework. However, respondents provided different views on how the Conceptual Framework should consider the business model concept. In the view of some a general provision that the ‘business model’ should be assessed when setting individual standards could be sufficient; others believed that the business model should enhance the existing qualitative characteristics of financial statements. Different views were also expressed whether the business model should be defined or not.

⁸¹ ASBJ

CRITERIA FOR USE OF THE BUSINESS MODEL

The Research Paper discussed the implications of the business model in IFRSs and proposed criteria to be used in the Conceptual Framework to identify when the business model might be used in accounting standards. The Research Paper also proposed principles for identifying business models in those accounting standards

Do you agree that criteria should be included in the Conceptual Framework to provide a more systematic approach for accounting standard setters to consider the business model?

- 93 Overall respondents⁸² agreed that criteria should be introduced in the Conceptual Framework to enable the IASB to identify whether the business model concept should be used in a standard.
- 94 One respondent⁸³ did not support the suggestion to include criteria in the Conceptual Framework, because it believed that value creation and cash flow generation should always play a role in the development of accounting Standards. In their view, this contrasts with the suggestion in the Research Paper that relevant criteria should be included in the Conceptual Framework in determining when to consider the business model.
- 95 Another respondent⁸⁴ preferred not to include criteria in the Conceptual Framework but rather to include a general statement that the business model should be considered when developing or revising standards when this leads to more faithful representation.

Summary:

Overall respondents expressed support for criteria to be used in the Conceptual Framework to identify when the business models might be used in accounting standards.

If so, do you agree with the suggested criteria?

- 96 Respondents provided different views on the suggested criteria.
- 97 Some respondents⁸⁵ agreed with the suggested criteria.

⁸² ICAC, Quoted Companies Alliance, ICAS, DASB, BUSINESSEUROPE, Swedish Enterprise Accounting Group, Moore Stephens LLP and FEE

⁸³ ASBJ

⁸⁴ ASCG

⁸⁵ FEE, ICAS, Quoted Companies Alliance and BUSINESSEUROPE

- 98 One respondent⁸⁶ did not agree with the suggested criteria. This respondent considered that the only criteria should be where the business model provided a better reflection of the objective economics of the transactions and balances.
- 99 Other respondents⁸⁷ believed that the suggested potential criteria were no different from the qualitative characteristics in general and they would prefer a more general reference to relevance.
- 100 One respondent⁸⁸ was not convinced that the criteria, which referred to the consistency of all the information reported (i.e. the linkage between the statement of financial position and the statement of comprehensive income) should be a specific criterion.

Are there any additional criteria that should be included? Please explain.

- 101 Respondents suggested the following additional criteria:
- (a) Verifiability⁸⁹; and
 - (b) Confirmatory value (the capacity to transform the predictive performance into cash within an appropriate time frame, i.e. to check the effectiveness and efficiency of management and changes in the business model).
- 102 Paragraph 5.7 (a) of the Research Paper stated that the business model should be considered by accounting standard setters when it leads to accounting which better reflects the economics of transactions. One respondent⁹⁰ suggested that this criterion in the paragraph should also refer to risk, (i.e. ‘when it leads to accounting which better reflects the economics and risks of transactions’).
- 103 One respondent⁹¹ suggested adding a complementary criterion, which should state i.e. ‘Enhances comparability by clearly differentiating between economic phenomena which are different.’

⁸⁶ Moore Stephens LLP

⁸⁷ Swedish Financial Reporting Board and ICAC

⁸⁸ BUSINESSEUROPE

⁸⁹ DASB

⁹⁰ ICAS

⁹¹ BUSINESSEUROPE

IMPLICATIONS OF THE BUSINESS MODEL

The Research Paper proposed some implications to IFRSs and asked whether constituents support the implications to the IFRS literature. The Research Paper asked constituents whether they have any further comments on the implications suggested in the Research Paper.

Implications of the business model

Support for implications to IFRSs

- 104 Some⁹² respondents supported the implications to the IFRS literature as suggested in the Research Paper and the way that the business model concept would affect financial reporting. In their view the notion of the business model should play a role in recognition, initial and subsequent measurement, presentation and disclosure.
- 105 One respondent⁹³ suggested considering whether an item forms part of a process of transformation of assets and services into other assets and services or whether it remains unchanged by the business activities between purchase and sale in order to decide on the appropriate measurement basis. This respondent also indicated two other aspects in which the business model could play a role in financial reporting: in deciding what is to be included in profit or loss (or in OCI); and in defining revenue.
- 106 One respondent⁹⁴ believed that value creation and cash flow generation was especially important when determining subsequent measurements of assets and liabilities from the perspective of reporting an entity's financial performance (in other words, value creation and cash flow generation would be important in determining 'measurement' and the 'use of OCI'). In the view of this respondent, measurement decisions are also likely to have a consequential effect on presentation and disclosures.
- 107 Two other respondents⁹⁵ also believed the financial performance presentation and 'use of OCI' needed to be in line with the nature of the business models and character of related business activities. Those two respondents also noted that consideration should be given to ensuring an appropriate accounting treatment of business models where two or more different non-industry specific IFRS standards apply. In their view the current proposals for the use of OCI in IFRS 9 *Financial Instruments* was too restrictive to properly reflect an insurer 'long-term business model'. They believed that recycling of equity instruments on a FV-OCI basis should be permitted to properly reflect the business model of insurers. In their view measurement and presentation inconsistencies should also be avoided.

⁹² BUSINESSEUROPE, DASB, Quoted Companies Alliance, ACTEO/AFEP/MEDEF and FEE

⁹³ ICAEW

⁹⁴ ASBJ

⁹⁵ GDV and French Insurance Association

108 Regarding the proposal in the Research Paper to use the ‘business model’ concept as criteria triggering recognition in OCI, one respondent⁹⁶ believed that it should not be allowed in the absence of a proper definition for the OCI. This respondent was also unsure how the ‘business model’ concept should play a role in the recognition at the level of IFRS Conceptual Framework as recognition is largely driven by the notions of control and risks and rewards.

No implications in the current Standards

109 One respondent⁹⁷ observed that the Research Paper did not provide actual implications on IFRSs, especially regarding recognition and measurement, and it questioned a need for any action regarding the current Standards. Thus, this respondent believed that a more general inclusion of the business model notion in the Conceptual Framework would suffice.

Business model and capital maintenance

110 One respondent⁹⁸ believed that the introduction of the business model in financial reporting would facilitate the assessment by the IASB of whether capital maintenance might be applied to more IFRSs where applicable.

Summary:

While some respondents supported the tentative view in the Research Paper that the business model should play a role in recognition, initial and subsequent measurement presentation and defining performance and disclosures, others were more supportive of the business model playing a role for determining initial and subsequent measurements of assets and liabilities, reporting an entity’s financial performance (including the ‘use of OCI’) and disclosures.

⁹⁶ ESMA

⁹⁷ ASCG

⁹⁸ FEE



OTHER ISSUES

The Research Paper asked constituents to provide additional comments.

Unit of account for the business model

111 One respondent⁹⁹ noted the need to identify the unit of account for the business model.

Cost/benefit analysis

112 One respondent¹⁰⁰ suggested that an assessment of the benefits of including the business model for each standard should be made, so that it does not imply additional and compulsory extensive documentation and disclosure provisions.

Disclosures about the business model

113 One respondent¹⁰¹ noted that in the situations in which more than one business model existed within one entity, it was important that the presentation and the accompanied disclosures explain clearly the different business models. The narrative disclosures should help users of financial statements to understand the different business models within an entity and the performance of the related activities.

114 Two respondents¹⁰² noted that disclosures about the business model would be relevant to the users. In their view an entity should disclose its business model(s), the nature of deviations from the business model, if any, and whether they might constitute a change to the business model. However, one¹⁰³ of those respondents was concerned about the potential unintended consequences regarding how the business model based disclosure requirements might be enforced by statutory auditors or public authorities. Therefore, in their view the conceptual granularity of different business models should not be too low.

⁹⁹ FEE

¹⁰⁰ EACB

¹⁰¹ DASB

¹⁰² FEE and GDV

¹⁰³ GDV

Main messages from the outreach event

- 115 Participants at the outreach event in Amsterdam expressed views consistent with those from respondents.

Possible developments at IASB

- 116 Respondents to the Research Paper believed that the outcome of the comments received on the Research Paper would be helpful in light of the ongoing IASB's re-deliberations on the Discussion Paper: *Review of the Conceptual Framework for Financial Reporting* and useful input for the upcoming Exposure Draft. Thus, they encourage the partners to share the outcome with the IASB.
- 117 EFRAG and the ANC already made a reference to the Research Paper in their responses to the IASB's Discussion Paper. Similarly, The UK Financial Reporting Council (FRC) made a reference to the Bulletin *The Role of the Business Model in Financial Reporting* which was issued in June 2013 by EFRAG, the French Autorité des Normes Comptables (ANC), the Accounting Standards Committee of Germany (ASCG), the Italian Organismo Italiano di Contabilità (OIC) and the UK Financial Reporting Council (FRC).
- 118 In its response to the IASB's Discussion Paper, EFRAG stated that:
- (a) the Partners¹⁰⁴, who agreed on the tentative views expressed in the Bulletin, did not believe that the current status quo, i.e. the business model being referred to in financial reporting requirements only on an ad hoc basis, explicitly or implicitly, at Standards level should be maintained. As a consequence, they supported the development of a proper rationale for the use of the business model notion as part of the Conceptual Framework, with appropriate guidance for standard setting purposes. Such guidance would help identify whether and when the business model notion should be explicitly incorporated on individual standards level. The Conceptual Framework should also require that the business model be based on observable and verifiable evidence.
 - (b) standards should reflect faithfully an entity's business model or models. If that is not the case, EFRAG believed that financial reporting requirements have not been developed appropriately. In its response, the FRC also provided the view that a close relationship between the business model and financial reporting can significantly enhance comparability by promoting consistency of treatment by entities within a sector. This will greatly assist investors whose analysis is often focussed on detecting differences between entities within the same sector. The ANC believed that placing the financial statements within the context of the entity's business model(s), a number of debates would be reconciled and/or be helpful for:
 - (i) The traditional opposition between decision-usefulness and stewardship
 - (ii) Long term and short term perspectives
 - (iii) The realised versus non realised debate
 - (iv) The debate about prudence versus caution
 - (v) The measurement to be applied and therefore the balance-sheet versus profit and loss debate
 - (vi) The unit of account
 - (vii) Presentation versus disclosure

¹⁰⁴ EFRAG, ANC, ASCG, OIC and FRC

- (c) the Conceptual Framework should highlight and illustrate how the business model can play a role in (i) recognition, (ii) measurement, (iii) presentation and (iv) disclosures.
- (d) the business model should play an important role in selecting the appropriate measurement bases. That view was shared by the Partners. In its response, the FRC noted that if the measurement portrays the way the asset or liability generate cash flows, i.e. according to the entity's business model, the measurement should adapt to any evolution of the entity's business model, which they consider would be infrequent but would be objectively identifiable. The FRC noted in its response that the concept of a business model assists in identifying the ways in which assets may bring value and cash flows to the entity.
- (e) the business model should play a role in defining primary performance. Similar view was expressed by the Partners ANC and FRC. FRC noted in their response that financial statements can facilitate an assessment of accountability by clearly distinguishing the results of the business model (operating profit) from other income and expenses and by highlighting unusual items. The ANC expressed the view that the profit or loss should be based on representation of the business model and they did not agree with an approach of extended use of OCI.

- 119 In its response to the IASB's Discussion Paper, the FRC suggested that it would be appropriate for the Conceptual Framework to provide a general description of the business model, rather than a specific definition. This should emphasise that the business model focuses on the means by which an entity creates value.
- 120 The main purpose of the Research Paper was to stimulate the debate on the role of the business model in financial statements. This has been achieved in light of the IASB's recent and forthcoming activities. It was useful to note that a summary of the Research Paper was presented in the IASB Staff papers for discussion in the June 2014 IASB ASAF meeting as part of their re-deliberations on the Discussion Paper.
- 121 The Partners will monitor the IASB activities and consider other possible next steps in the project.
- 122 The IASB's re-deliberations on the topic are expected to begin in July 2014.

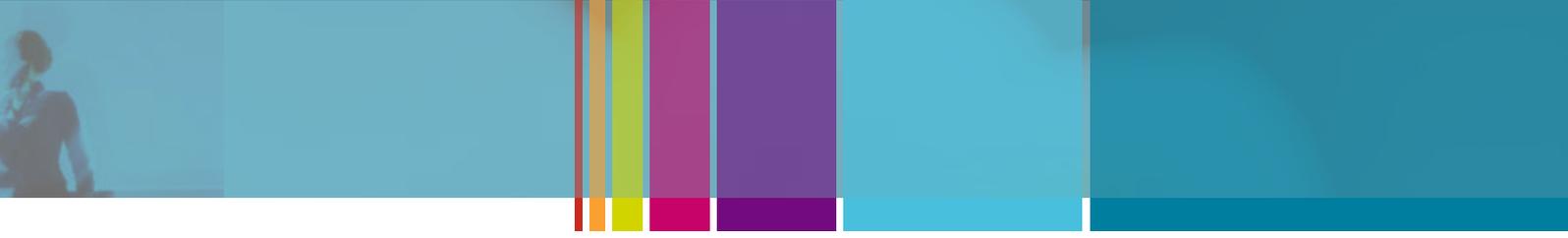
List of respondents

<i>Name of organisation</i>	<i>Type of organisation</i>
European Securities and Markets Authority (ESMA)	Regulator
Accounting Standards Board of Japan (ASBJ)	Standard setter
Accounting Standards Committee of Germany (ASCG)	Standard setter
Dutch Accounting Standards Board (DASB)	Standard setter
Instituto de Contabilidad y Auditoria de Cuentas [Institute of Accounting and Audit] (ICAC)	Standard setter
Norwegian Accounting Standards Board (NASB)	Standard setter
Swedish Financial Reporting Board	Standard setter
ACTEO/AFEP/MEDEF	Membership organisation
BUSINESSEUROPE	Membership organisation
European Association of Co-operative Banks (EACB)	Membership organisation
European Banking Federation (EBF)	Membership organisation
Federation of European Accountants (FEE)	Membership organisation
French Insurance Federation (FFSA)	Membership organisation
German Banking Industry Committee	Membership organisation
German Insurance Association (GDV)	Membership organisation
Institute of Chartered Accountants of Scotland (ICAS)	Membership organisation
Institute of Chartered Accountants in England and Wales (ICAEW)	Membership organisation
Insurance Europe	Membership organisation
Quoted Companies Alliance	Membership organisation
Swedish Enterprise Accounting Group	Membership organisation
Moore Stephens LLP	International accounting and consulting network

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