



IASB ED: Conceptual Framework for Financial Reporting

ICAEW welcomes the opportunity to comment on the consultation document *IASB ED: Conceptual Framework for Financial Reporting* published by the European Financial Reporting Advisory Group (EFRAG) on 8 July 2015, a copy of which is available from this [link](#).

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MAJOR POINTS

Introduction

1. We welcome the opportunity to comment on EFRAG's consultation document (CD), which provides a helpful discussion of the issues raised by the exposure draft (ED) *Conceptual Framework for Financial Reporting*, published in May 2015 by the International Accounting Standards Board (IASB). We have taken the CD into account in preparing our response to the ED, which we are sending to EFRAG at the same time as these comments. As our views on the issues raised by the ED are set out in full in our response to the IASB, we have kept the comments in this response to the CD as brief as possible.

RESPONSES ON SPECIFIC ISSUES

Chapters 1 and 2: The objective of general purpose financial reporting and the qualitative characteristics of useful financial information

Stewardship

2. Like EFRAG, we welcome the greater prominence given to the assessment of management's stewardship. However, we would not want the framework to go further because this would run the risk of trying to serve two different objectives, which in certain circumstances might be in conflict.
3. We are content with the list of users identified by the ED. We disagree with EFRAG's proposal that where preparers 'converge' in opposing a proposal from the IASB, the IASB should be under a special responsibility to respond to their views. In the first place, there seems to be no good reason to privilege preparers in this way relative to other groups who express views on the IASB's proposals (for example, regulators or auditors). It risks undermining the prime focus on external risk capital providers that have no access to inside information and are therefore reliant on general purpose financial statements required by law or regulation. Secondly, this is a procedural matter for the standard-setting process, not something that should be dealt with in the conceptual framework.
4. Preparers have of course a valuable role to play in the standard-setting process, particularly in relation to cost-benefit issues, but also in giving insights into the preferences of the external users of their accounts. Where, however, the IASB receives comments on its proposals that indicate a strong body of opinion opposed to them, it should explain why, if it stands by the proposals, it has decided to do so. This should be the case regardless of the source of the opposing views.

Prudence

5. Like EFRAG, we welcome the reintroduction of prudence into the framework, but share EFRAG's concern that 'cautious prudence' is not really an aspect of neutrality and agree that 'asymmetric prudence' needs to be brought into the framework as an important consideration for the IASB in setting standards. We do not believe, however, that incorporating asymmetric prudence in the framework should stop the use of fair value measurement in appropriate circumstances or the recognition of fair value gains in financial statements.

Substance over form

6. Like EFRAG, we welcome the reintroduction to the framework of substance over form, but agree that the ED's drafting on this point needs to be improved.

Measurement uncertainty

7. We agree that the discussion of measurement uncertainty in the ED is unsatisfactory, but we do not share EFRAG's concern as to whether it is treated as an aspect of relevance.

Fundamental qualitative characteristics

8. We do not share EFRAG's objections to the removal of reliability from the framework, and are content for faithful representation to remain.

Chapter 3: Financial statements and the reporting entity

Description and boundary of a reporting entity

9. We agree that this chapter of the framework needs to be expanded, and that entity accounts can provide useful information that would not appear in consolidated accounts.

Chapter 4: The elements of financial statements

Q3: Definitions of elements

10. Unlike EFRAG, we do not agree with all the ED's definitions of the elements of financial statements. We think that the definition of a liability is in general too narrow, although there are also circumstances in which it would be too broad. In our comments to the IASB, we suggest ways in which the scope of liabilities might be better defined. We also think that the definitions of 'income' and 'expenses' have the wrong focus: they should be defined as changes in equity, not as changes in assets and liabilities.

Q4: Present obligation

11. Unlike EFRAG, we do not agree with the proposed description of a present obligation, which in general we think is too narrow, although again there could be circumstances in which it would be too broad.

Q5: Other guidance on the elements

12. We do not share EFRAG's concerns about the ED's discussion of executory contracts, but we agree that the discussion of unit of account could be improved, without necessarily agreeing with all of EFRAG's comments on this question. We have a number of other concerns on the guidance, which we raise in our response to the IASB.

Chapter 5: Recognition and derecognition

Recognition criteria

13. Like EFRAG, we broadly support the ED's approach to recognition, but we raise some questions on it in our response to the IASB.

Derecognition

14. We broadly support the ED's approach to derecognition, but suggest that the framework should include a discussion of the implications of substance over form for this subject.

Chapter 6: Measurement

Measurement bases

15. Unlike EFRAG, we disagree with the categorisation of measurement bases proposed in the ED. We believe that a division between entry values and exit values would be more useful. This would deal with the point EFRAG makes that it is anomalous to deal with current cost under the heading of 'historical cost'.

Q9: Factors to consider when selecting a measurement basis

16. We do not share EFRAG's concerns about the need for additional guidance on various aspects of this question. Although in our view the ED's approach to measurement has not been thought through properly and needs further work, we would not wish the framework to be drafted in such a way that it ties the IASB's hands on the selection of appropriate measurement bases when it is preparing standards. We agree with EFRAG, though, that the effects on the income statement as well as on the statement of financial position should be considered when the IASB makes decisions on measurement issues.

Q10: More than one relevant measurement basis

17. Unlike EFRAG, we believe that it is important to have just one basis of measurement for an item. However, income and expenses arising from the chosen measurement basis may be analysed into their component parts in the income statement and other operating income (OCI) where this provides useful information. Such an analysis might use different measurement

bases, but other criteria may also be relevant. Any analysis of this sort should be stipulated as appropriate in the relevant accounting standards.

Chapter 7: Presentation and disclosure

18. We have serious concerns with this chapter's proposals regarding profit or loss, OCI and recycling, which we note below.

Q12: Description of the statement of profit or loss

19. Ideally, we favour a single income statement, as we can see no convincing principle for distinguishing elements of OCI from other income and expenses. However, we note that the IASB proposes to preserve the concept of OCI, with considerable support from constituents. Our replies on this issue should be taken in this context.
20. We have no strong objection to the ED's description of the purpose of profit or loss, but we think that it would usefully be clarified by stating that it measures financial performance for the period, and we consider that it is inconsistent with the ED's proposals for OCI and recycling.

Q13: Reporting items of income or expenses in other comprehensive income

21. We believe that OCI should be restricted to items that neither help to measure the current year's performance nor help to estimate future performance. These are, of course, vague concepts, as are any other concepts proposed in this area. However, we think that the list might typically include only:
- gains on the revaluation of property, plant and equipment (PPE);
 - gains on the sale of PPE, except where they are in substance corrections of accumulated depreciation;
 - foreign currency translation adjustments on foreign subsidiaries;
 - actuarial gains and losses on a defined benefit pension scheme; and
 - fair value gains and losses on effective hedges.

We believe, however, that more work is needed on this.

Q14: Recycling

22. We disagree with EFRAG's proposal that no income and expense should be permanently excluded from profit or loss. We also disagree with the ED's proposal that there should be a rebuttable presumption that all income and expenses recognised in OCI should subsequently be recycled to profit or loss. Of the items that we believe should be recognised in OCI, in our view only fair value gains and losses on effective hedges should be recycled to profit or loss. This is because they would be recycled at the point that they become relevant to measuring performance for the period. There is no time at which the other items we have identified would be relevant to measuring performance for the period or to predicting future performance.

Other questions for respondents

Q15: Effects of the proposed changes to the Conceptual Framework

23. We agree with the ED's proposals on the status of the framework and that the amendments to it should not automatically lead to any changes in standards.

Q16: Business activities

24. Like EFRAG, we welcome the ED's recognition of the role of business models in financial reporting. Unlike EFRAG, we believe that the ED deals satisfactorily with this matter. We would not support including a definition of the term 'business model' in the framework, which we do not think would achieve anything.

Q17: Long-term investment

25. We agree with EFRAG that it is unnecessary to distinguish between the information needs of long- and short-term investors. We do not agree that the framework requires additional guidance on long-term investment business models.

Q18: Other comments

True and fair view

26. The concept of 'fair presentation' appears in IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, but not in the ED. It seems to us to be a fundamental concept in financial reporting; it would be helpful if the framework were to discuss it and its relationship to faithful representation. It would also be helpful to confirm that fair presentation is considered by the IASB to mean the same as 'true and fair view', a concept that occurs in the laws of many jurisdictions that have adopted IFRS.

Capital maintenance

27. As EFRAG indicates, Chapter 8, 'Concepts of capital and capital maintenance', is not well linked with the rest of the framework. Indeed it is instead linked conceptually with IAS 29, *Financial Reporting in Hyperinflationary Economies*, which is more or less unrelated to the rest of IFRS. We agree that, if there are no plans to update it properly and to link it with the rest of the framework, this chapter should be deleted, not because its subject is unimportant, but because it has not received any serious thought from the IASB since 1989 and as it stands it is misleading.