EFRAG
European Financial Reporting Advisory Group

Hans Hoogervorst
Chairman
IASB
30 Cannon Street
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Brussels, 21 December 2016

Dear Hans,

Conceptual Framework: asymmetry

We were pleased to note the IASB's tentative decisions on the treatment of asymmetry in the Conceptual Framework, which were reported in the October IASB Update as follows:

> The Board tentatively decided that 'Chapter 2—Qualitative characteristics of useful financial information' of the revised Conceptual Framework should acknowledge that the exercise of prudence does not imply a need for asymmetry—for example, a need for more persuasive evidence to support the recognition of assets than of liabilities or to support the recognition of income than of expenses. <u>Nevertheless, in financial reporting standards such asymmetry may sometimes arise as a consequence of requiring the most useful information</u>. All 12 Board members agreed with this decision.

The underlined sentence reflects our view that asymmetry is an important idea that should be considered in the development of accounting standards, and therefore should be included in the Conceptual Framework, but that it should not invariably prevail over all other considerations. It is, in our view, important that this point is developed further so that the Framework provides some direction as to the circumstances in which asymmetry may and may not play a part. There seem to be two circumstances: recognition and measurement.

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An example of the role of asymmetry in recognition is the recognition of liabilities by the defendant in a legal case, while the claimant would not recognise an asset. This would have been met if the Board had accepted the staff recommendation (in paper 10G for the October IASB meeting) that the Framework should state:

> *...judgement is required when deciding whether to recognise an item and recognition requirements may vary between Standards, or for different items within a Standard. In particular, different recognition requirements may be selected for assets than for liabilities and for income than for expenses, if such selection is necessary to provide relevant information that faithfully represents what it purports to represent.*

As regards asymmetry in measurement, the revised Measurement chapter needs to be clear that historical cost is asymmetric in that impairment of assets are recognised while increases in value are not recognised—and similarly liabilities are increased when they become onerous, but not usually decreased when they become less burdensome. But it also should be clear that asymmetry plays no part where fair value is used: for example, it would not be appropriate for derivatives to be accounted for differently depending on whether they were assets or liabilities.

We should of course be pleased to discuss this issue with you or IASB members and staff if you would find that helpful.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

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