JOINT OUTREACH EVENT

IASB EXPOSURE DRAFT ED/2015/3

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

PARIS

14 SEPTEMBER 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 the IASB staff and has been jointly approved for publication by representatives of EFRAG and the ANC, 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 ANC, in cooperation with the IASB, on 14 September 2015.

The joint outreach event was chaired by Patrick de Cambourg, President of the ANC 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 ANC, the IASB or EFRAG;
- receive input for the ANC's comment letter to EFRAG and the IASB; and
- learn whether the preliminary comments as set out in EFRAG's document for public consultation were shared by European constituents.

Philippe Danjou (IASB Board Member) 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 had different backgrounds, and included users, preparers, auditors, regulators and academics.

Issues covered

Participants discussed the following issues:

- status of the Conceptual Framework;
- the objective of financial reporting and the qualitative characteristics of useful financial information;
- the inclusion of the true and fair view concept in the Conceptual Framework;
- measurement and presentation (OCI and recycling);

- definitions and recognition/ derecognition; and
- other issues.

Comments received

Status of the Conceptual Framework

The Conceptual Framework is intended as a practical tool for standard setting that will evolve over time.

The IASB Board Member explained that the Conceptual Framework is intended as a practical tool for the IASB in standard setting, and is expected to evolve as new issues receive intelligent answers and new thinking arises.

A participant was uncertain about whether new standards were consistent with the Conceptual Framework.

A participant asked whether the new standards were consistent with the Conceptual Framework. The IASB Board Member answered that, as the IASB is amending its Conceptual Framework, some new standards are inconsistent with the current version. However, in the future standards, any conflict with the Conceptual Framework would have to be explained in the Basis for Conclusions.

A participant asked whether there were special voting procedures in place when standard setting was not consistent with the Conceptual Framework. In addition, would any deviation trigger a revision of the Conceptual Framework? The IASB Board Member replied that no special voting procedures were in place; only that any deviation should be explained in the Basis for Conclusions. In addition, if many deviations occurred, this would be discussed in the Trustees' review. Finally, a deviation would always put into question the Conceptual Framework. Should the Conceptual Framework be revised to account for new economic developments?

A participant did not think the Conceptual Framework should be endorsed in the EU.

Participants discussed whether the Conceptual Framework should be endorsed in the EU. A participant questioned the need for EU endorsement of the Conceptual Framework, as there already existed a framework for IFRS (IAS Regulation). Another participant added that he would be concerned about legal difficulties if the Conceptual Framework were to be endorsed by the EU. In case of any deviation from the Conceptual Framework during standard setting, there would be legal difficulties if the standard, interpretation or amendment were endorsed.

The objective of financial reporting and the qualitative characteristics of useful financial information

The Exposure Draft gives greater prominence to the assessment of management's stewardship of the entity's resources in the description of the objective of financial reporting. A participant from

the user community welcomed the inclusion of stewardship. He also agreed that long-term investors did not need different information from other users.

A participant welcomed the inclusion of stewardship.

A participant stated that the definition of stewardship should refer to the business model.

A participant believed that the financial statements intended to translate what the management did with their company. She felt that the definition of stewardship should refer to the business model. The IASB Board Member replied that the financial statements were intended to be applied in any company; therefore, independent of which business model is applied. He also noted that IFRS was not intended to be industry-specific.

A participant felt the link between stewardship and performance was not clearly articulated.

Participants had mixed views on extending the definition of a primary user to include the entity's management or the community at large.

The Exposure Draft defines the primary users of financial reports as existing and potential investors, lenders and other creditors. A participant suggested that the management should be considered a primary user. The IASB Board Member replied that the Exposure Draft stated that the management did not need the financial statements as they had access to internal information. The participant noted that he preferred a holistic view in which the community at large was considered the primary user (including, for example, management, financial investors and employees). A participant from the user community replied that this would cause conflicts of interest.

A participant underlined the importance of a common understanding of the terms and concepts between managers and users. Large groups have invested heavily to align the internal and external financial reporting. This implies that managers (non-accountants) should also be considered as users of the financial statements. Another participant noted the increased importance in managers' responsibilities of communicating to financial markets.

A participant thought that the Conceptual Framework should provide guidance on how prudence would affect standard setting.

A participant thought that the concept of asymmetric prudence seemed more consistent with the EU

The Exposure Draft proposes to reintroduce the notion of prudence in the Conceptual Framework. A participant noted that the definition of prudence focused only on the preparer and did not provide guidance on how this would be applied during standard setting. She preferred the concept of asymmetric prudence over the concept of cautious prudence, as this seemed more consistent with the concept of prudence in the EU Accounting Directive. The IASB Board Member confirmed that asymmetries existed in the current accounting standards and this could be more clearly explained in the Exposure Draft. However, this should not be a rule

Accounting Directive.

that should always be applied.

A participant did not think that prudence was an element of neutrality.

A participant questioned the decision to place prudence under neutrality. The link between prudence and neutrality seemed difficult to understand and resulted in many questions.

A participant noted that, in German literature, prudence came in two forms: one focused on realisation and one focused on imparity (which means that unrealised losses should be reported, but unrealised profits should not).

A participant believed that a faithful representation would require consideration of the entity's business activities.

A participant thought that 'reliability' should replace 'faithful representation'.

The Exposure Draft proposes two fundamental qualitative characteristics: faithful representation and relevance. A participant questioned the decision to select faithful representation and relevance as the fundamental qualitative characteristics. She expressed the view that information could not be relevant if it was not faithfully represented. She noted that the discussion on faithful representation did not refer to the entity's business activities; whereas the discussion on the reporting entity in paragraph 3.18B of the Exposure Draft referred to the business activities. She felt that such a reference should also be included in Chapter 2 of the Exposure Draft. She also noted that the other characteristics of faithful representation focused on the accounting process. She recommended to replace faithful representation by reliability.

The IASB Board Member noted that the concept of a business model was often used in conceptual debates and he felt this concept could be dangerous as some interpretations of the concept could be detrimental to accounting. A participant noted that she interpreted the concept as meaning that the financial statements faithfully reflected the company's activity. The IASB Board Member noted that this interpretation was consistent with how the concept had been used in current IFRS. The participant replied that, for example, in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, she did not agree with the concept of settlement values. The IASB Board Member replied that the concept of settlement values was part of proposals in the non-financial liabilities project, which were rejected.

A participant found it unclear whether the concept of substance over form related to the economic substance or the contractual terms and conditions.

The Exposure Draft proposes to reintroduce 'substance over form' within the concept of 'faithful representation'. A participant questioned whether the substance was well defined. Did it refer to the economic substance or the contractual terms and conditions? Another participant noted that the accounting in IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint*

Arrangements seemed to focus heavily on the legal form. The EFRAG TEG Chairman noted that in Europe there were legal frameworks that provided the buyer of a property the option to cancel the contract until the day before the property was delivered without incurring a penalty. She therefore concluded that the contractual terms and the legal framework in which agreements are drafted could have a significant impact on the accounting for transactions. The IASB Board Member referred to paragraphs 4.54 and 4.55 of the Exposure Draft, which stated that the legal form should only be disregarded if it has no commercial substance.

The inclusion of the true and fair view concept in the Conceptual Framework

The Basis for Conclusions accompanying the Exposure Draft states that the true and fair view is expected to mean the same thing as the concept of relevance and representational faithfulness.

A participant thought that the true and fair view concept was superior to 'faithful representation'.

Some participants thought that there was no common understanding on the meaning of 'true and fair view' and 'public good'.

A participant noted that the true and fair view originated from English law and was included in the EU Accounting Directive and the IAS Regulation. She explained that, when the European Commission developed the IAS Regulation, it attempted to reconcile the English principle of true and fair view with the American principle of fair presentation. Afterwards, the concept of fair presentation evolved in the US towards faithful representation. Therefore, she questioned why the IASB removed the concept of true and fair view, but retained the concept of faithful representation. She felt that the true and fair view was a superior concept, compared to faithful representation, as it was more aspirational (as it referred to honesty and truthfulness). She also referred to the legal debate in the UK on whether IFRS was consistent with the IAS Regulation. This discussion related to topics such as prudence, the distribution of dividends, the banking risk, maintenance of capital and the possibility to diverge from the Conceptual Framework. The participant noted that there was uncertainty as to how the concept of true and fair view should be interpreted. She also heard that the EFRAG Board was discussing the concept of true and fair view. The EFRAG TEG Chairman referred to the report of the European Commission on the evaluation of the IAS Regulation. In this report, the European Commission observed that a common understanding of the endorsement criteria was needed. The European Commission therefore decided to address this topic in the meeting of the Accounting Regulatory Committee that was scheduled for 17 September 2015 (during which EFRAG's advice would be considered). Prior to EFRAG's reform, EFRAG's endorsement

advice referred, in its conclusion, to the criteria in the IAS Regulation. After the reform, the EFRAG Board asked the EFRAG Secretariat to further articulate the basis for this conclusion in the future endorsement advices. The IASB Board Member noted that there was no common understanding in Europe on the meaning of 'true and fair view'. Another participant noted that there was also a lack of common understanding on the concept of 'public good'. He referred to an analysis of the conformity of the IFRS with the IAS Regulation performed by an association of banks.

Measurement and presentation (OCI and recycling)

The Exposure Draft classifies the measurement bases into two categories (current value and historical cost). The Exposure Draft also states that the statement of profit or loss is the primary source of information about an entity's financial performance for the period. As a result the Exposure Draft includes a rebuttable presumption that all income and expenses should be included in the statement of profit or loss. The IASB Board Member noted that the fact that the Exposure Draft gave prominence to the statement of profit or loss was a big step forward.

A participant could not understand how a rebuttable presumption could be introduced, without a definition of financial performance.

A participant noted that, whilst a rebuttable presumption was included that all income and expenses should be reported in profit or loss, the Exposure Draft did not include a definition of financial performance. He noted that the statement of Other Comprehensive Income ('OCI') had been used in various standards without having any underpinning principles for what should be reported in OCI. He asked how it was possible to include a rebuttable presumption that all income and expenses should be reported in profit or loss without defining profit or loss and OCI. The IASB Board Member replied that it was very difficult to define financial performance. He gave the example of the recognition of exchange differences related to a foreign affiliate that was funded in a currency that was not the local currency. He asked whether changes in the exchange rate were part of the performance of the group. He argued that the changes could be considered to be part of performance as the group chose to fund the affiliate in a different currency and thereby increased the exposure to the local currency.

85% of users in a survey said that they did not use OCI.

A participant thought that it would be difficult to define performance.

A participant from the user community noted that he had been a member of a joint working group (Joint International Group on Performance Reporting) in the past. Despite the working group's efforts over 5-6 years, the group was not able to define financial performance. In addition, he noted that a survey amongst users on the subject of depicting financial performance showed that 85% of

A participant welcomed the decision to give more prominence to the statement of profit or loss.	the users said that they were not interested in, or did not know of, OCI. He therefore welcomed the IASB's decision to give more prominence to the statement of profit or loss. He noted that OCI is difficult to define and he therefore preferred a pragmatic approach. He was concerned that currently, and under the Exposure Draft, some items reported in OCI would not be recycled. He welcomed that some companies, for example, Orange, provided additional reconciliations of OCI. The IASB Board Member added that he found the analysis of the Banque de France on the evolution in the OCI reserves very interesting.
A participant stated that recycling should only be possible if it reflects performance.	Another participant stated that recycling should only be possible if it related to performance. She could not understand why gains and losses related to pension liabilities could not be recycled.
A participant thought that more prominence should be given to the statement of cash flows.	A participant welcomed the IASB's focus on the statement of profit or loss. However, he felt that the Exposure Draft should include definitions of profit, loss and gains. He agreed that performance was difficult to define. He noted an increased focus on return on investment, which included an assessment of the amount, timing and uncertainty of future cash flows. This would represent the capacity of the entity to generate future cash flows. He was disappointed with Chapter 7 of the Exposure Draft, as he felt that the statement of profit or loss was too affected by non-cash items. In addition, he could not understand that the chapter did not consider the statement of cash flows.
A participant stated that the Exposure Draft should justify the selection of the measurement methods.	A participant stated that the Exposure Draft should justify the selection of the different measurement methods. Another participant noted that it was difficult to distinguish amortised cost from current value. A third participant questioned the combined use of amortised cost and fair value to measure a single item, as for him these two measurement bases were not reconcilable.
A participant suggested that there should be one default measurement basis.	A participant noted that the measurement guidance would be more practical if there was a single measurement basis that could be used by default. He also noted that if OCI cannot be defined, the guidance should describe its use in accounting (such as the basis for recycling).
A participant thought that OCI could include unrealised gains.	A participant suggested that prudence may be a basis for the use of OCI (unrealised gains).

A participant believed that the Conceptual Framework should define realised and unrealised results.

A participant stated that the Conceptual Framework should define realised and unrealised results. He also stated that the IASB should include a definition of distributable reserves in the Conceptual Framework, as he believed that it should be within the IASB's mandate.

A participant observed an evolution in the positions of the IASB. A few years ago, the IASB believed that OCI should never be recycled. The IASB Board Member noted that the IASB had debated recycling and different IASB members held different views.

Definitions and recognition/ derecognition

A participant thought that the guidance on the effect of low probabilities of inflows and outflows on recognition was inconsistent.

A participant stated that the criteria for recognition would require a considerable amount of judgement. He noted that in his experience preparers preferred a probability threshold for recognition. The Exposure Draft seemed inconsistent, as it was stated in paragraph 5.18 that even if the probability of an inflow or outflow of economic benefits was low, recognition of an asset or a liability might provide relevant information. On the other hand, in paragraph 5.19 it was noted that users of financial statements might, in some cases, not find it useful for an entity to recognise assets and liabilities with very low probabilities of inflows and outflows of economic benefits. He also observed that paragraph 5.21 of the Exposure Draft noted that a measurement might not provide relevant information if the range of possible outcomes was extremely wide and the likelihood of each outcome would be exceptionally difficult to estimate. He asked whether this meant that the IASB was no longer in favour of probability-weighted average amounts.

Some participants were uncertain about the effects of the guidance.

A participant asked whether the guidance on derecognition would result in any changes to current practice. The IASB Board Member noted that, in the case of the accounting for modifications in financial instruments, there was no evolution in the thinking. He agreed that the accounting for modifications of financial instruments required considerable judgement.

Two participants asked about the consequences of the Exposure Draft, as this was difficult to assess. The IASB Board Member stated that it was easier to determine the consequences on the liability side than on the asset side. For levies, for example, the proposed guidance focused on the practical ability to avoid and whether benefits were received. This was different from current guidance. However the asset-side of levies remained unclear.

A participant was uncertain about whether derecognition should be based on loss of control or loss of exposure to risks and rewards.	A participant thought it was unclear whether the Exposure Draft suggested derecognition to be based on loss of control or loss of exposure to risks and rewards. He noted that paragraph 5.25 of the Exposure Draft referred to control, whereas paragraph 5.29 seemed to refer to the risks and rewards.
A participant was uncertain about why the business model was considered in relation to measurement, but not in relation to recognition.	A participant also noted that the business model was considered in measurement, but not in relation to recognition. The IASB Board Member replied that assets should be recognised independently from the business model, which therefore implied that the recognition criteria should be general.
A participant questioned whether the definitions were consistent with European expectations.	A participant was concerned whether the list of definitions was consistent with European expectations. The IASB Board Member replied that the definitions were explained throughout the Conceptual Framework and gathered into the glossary to limit the risk of inconsistent interpretations of terms and concepts used.
	Other issues
A participant did not believe that the Exposure Draft was sufficiently practical to be used for standard setting.	A participant questioned whether the guidance in the Exposure Draft was sufficiently practical to be used for standard setting.