ICAC Comments on EFRAG's Bulletin on the Asset/Liability approach

(i) Are there any arguments for and against the asset/liability approach - defining income and expenses in terms of changes in assets and liabilities - that are not discussed in the Bulletin?

ICAC is of the view, that the new definitions proposed in the Conceptual Framework (CF) don't seem to be so different to those existing in the present CF. Basically the IASB has extracted the term "is expected" and when defining "economic resources" it has introduced the term "is capable".

The Bulletin refers to a number of issues on whether the asset/liability approach implies that the presentation of information on income will be subordinated to information on assets and liabilities; provides an appropriate basis for reporting performance; requires that all assets and liabilities are recognized; and/or implies that all assets and liabilities are to be stated at fair value.

We believe that in general terms current Conceptual Framework has worked well, so we don't consider it to be convenient nor needed, opening debates on alternative focuses like proposal of paragraph 5 on basing the financial reporting on the "Creation of value", or the "Matching approach" of paragraph 12. Nevertheless, if this discussion is considered to be necessary we would appreciate a longer development of those proposals in order to understand well what the Bulletin is arising.

One issue raised on the document is that some who oppose the asset/liability approach believe that measurement of assets and liabilities should not be the starting point for financial reporting, but the Bulletin does not clearly present the alternative supported by them.

ICAC is concerned with the fact that if proposals change the Balance Test, care should be taken in relation to the effects that it may have on creditors, which are also very important resources' providers to the entity. The loss of reliability by introducing fair value and new assets (not permitted at present) in the Balance sheet opens the door to new different problems to solve.

We believe that revenue and expenses are at present correctly treated relying on the definition of assets and liabilities. This Bulletin, as well as the Bulletin on accountability and the objective of financial reporting, brings us to the conclusion that the real debate is on whether transactions do give rise to an asset or a liability, and if so, when to recognize them and for what value.

We suggest to do a more profound analysis on these three issues (definition, recognition and valuation) that are the real source of conflict when accounting transactions. (Transaction costs/acquisition costs in business combinations…etc). Example given in paragraph 12 on the repurchase of a debt, in our opinion is not a discussion on if it is revenue today or it is deferred; it is a discussion on if it is a Liability or not.

In relation to fair value accounting, we are of the view that fair value should be used only in certain Financial Instruments.

<u>(ii) Do you believe that the asset/liability approach should be retained or revised? If changed, what alternative would you propose?</u>

ICAC believes that current approach relying on definition of assets and liabilities of the Conceptual Framework is appropriate.

<u>(iii) Do you have any other comments on this Bulletin?</u>

In general terms ICAC agrees with EFRAG's conclusion in paragraph 31.

Madrid, 15th November 2013

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86