EFRAGs Draft Comment Letter

Re: A Review of the Conceptual Framework for Financial Reporting
Thursday, 17 October 2013

Dear,

I would like to comment on two significant issues: financial disclosure and the significance of business models for financial disclosure.

Para 7.26 of the IASB's *A Review of the Conceptual Framework for Financial Reporting* (the 'DP') presents the case for the classification and aggregation into line items and subtotals. And that these should be based on similar properties such as: the function or nature of the item.

This paragraph seems to imply that either/or presentations are possible. According to IAS1 where a reporting entity discloses financial information by function it should also disclose sufficient information to reconstruct the income statement into a nature of expenses format. The EFRAG draft response letter considers this issue of presentation in paragraph:

312 The DP states that in order to provide information that is useful to users in making economic decisions about providing resources to the entity, classification and aggregation into line items and sub-totals (where relevant) should be based on similar properties such as: the function of the item, the nature of the item or how the item is measured.

I would suggest that in line with current IAS1 it is made clear that where a reporting entity discloses expenses by function it should ***also*** disclose expense by nature [in the notes] . This would preserve the quality of financial disclosure and allow profit to be contextualised from a stakeholder perspective rather than by function of expense which obscures the relation to stakeholders.

In addition disclosing expenses by nature would facilitate the production of a value retention statement that would reveal a reporting entities financial boundary (internal value retained and external expenses).

Turning to EFRAGs questions to constituents on page 75 referring to business models

425 Do you support EFRAG's tentative position on the implications of the business model for Conceptual Framework, expressed in paragraphs 412-423? If not, please explain your reasoning.

Implications of the business model for a conceptual framework

I do not agree with FRAGs reasoning about the contribution of business models to informing the conceptual framework and standards setting. Accounting standards are a complex universe of rules and recommendations governing the recording of financial statement line items and disclosures in the notes. Accounting standards evolve and adapt to capture a range of possibilities that all reporting entities across a range of business models might need to consider.

Playing a role in disclosures, recognition, measurement and presentation

A business model framework will significantly provide a filter between the universe of accounting standards and need for a reporting entity to generate relevant disclosure(s) *about* specific stakeholder relations, their financial recognition, measurement and presentation.

426 The questions below reproduce the questions from the Bulletin *The Role of the Business Model in Financial Reporting*, issued in July 2013 by EFRAG and the standard-setters from France, Germany, Italy and the United Kingdom. Constituents should provide their input either as a response to the Bulletin or as a response to this draft comment letter.

(a) Do you think the assumed meaning as used in the Bulletin makes sense from a financial reporting perspective?

The meaning of business models is not clear and needs to be broadly conceptualised (see below)

406 Both the Research Paper and the Bulletin use an assumed meaning of the term. The assumed meaning focuses on the value creation process of an entity, i.e. how the entity generates cash flows. In case of non-financial institutions, it represents the end-to-end value creation process or processes of an entity within the business and geographical markets it operates.

The concept of a business model should be broadly conceptualised.

A business model is broadly constituted out of reporting entities that share similar stakeholder relations and information genotype. The objective of a reporting entity within its business model is to secure cash flow and solvency from a combination of: value creation and value capture. A business model framework for disclosure adds relevance and context because changes to stakeholder relations impact upon a reporting entity's disclosed financials.

(b) Do you support the tentative view that management intent and business model are distinct?

I do not think that the notion of management intent adds distinctiveness because management intention(s) will be variable and contingent even within similar business models. However the way in which management discloses information *about* stakeholder relations (within their respective business model) will provide information that is useful for an assessment of management's accountability, or stewardship.

(c) Do you support the tentative view that the business model should play a role in financial reporting? *Yes definitely*

(d) Do you agree with the proposed implications for the IFRS literature identified in the Bulletin?

Yes the use of illustrative examples about how business models can provide a filter to generate relevant disclosure out of specific accounting standards would be a significant step forward contributing to our understanding of a reporting entities financial viability and risk.

(e) Do you have any other comments?

None

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