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Our ref., Date

Dr. Susanne Kanngiesser
 Dr. Roman Sauer
 14th January 2014

Re: DP/2013/1: A Review of the Conceptual Framework for Financial Reporting

Dear Françoise,

We acknowledge the effort by the IASB to develop the Discussion Paper "A Review of the Conceptual Framework for Financial Reporting" (the "DP") and appreciate the opportunity to comment on it. As a member of the European Insurance CFO Forum, we would like to state that we fully support the comment letter submitted by the CFO Forum.

IFRSs currently under development, particularly IFRS 4 and IFRS 9 will essentially impact the financial reporting of Allianz as a global financial services provider. Many aspects discussed in the DP have a close link to these projects and for this reason consistency between the proposals is of particular relevance for us. Our response focuses on specific areas that have considerable impact for us in the development of a new Conceptual Framework for financial reporting including the distinction between liabilities and equity instruments, measurement of assets and liabilities, presentation and disclosure and presentation in the statement of other comprehensive income as well as the consideration of the business model. :

- Section 5 - Definition of equity and distinction between liabilities and equity instruments: We tentatively support the 'strict obligation' rather than the 'narrow equity' approach, although we think that it is at the current stage not possible to assess if this approach is suitable under all circumstances. For this reason, we would like to ask the Board to continue with its research in this area. Since non-controlling interests and the measurement of equity claims also form part of the discussion, we would like to take the opportunity to state that in our view puttable interests that represent the residual interest of an entity should be classified as equity.
- Section 6 - Measurement: We agree with the IASB that measurement should form part of the Framework and support a mixed measurement model for assets and liabilities. The Framework should include a general description of possible measurement approaches. However, when and how these approaches should be used, should be dealt with in the respective IFRSs.

As an insurance company, we would like to point out once more that there is often a direct link between assets and liabilities in terms of measurement, especially for participating insurance contracts. Insurance liabilities and guarantees are managed together with their related assets as part of the Asset Liability Management (ALM) strategy to meet the obligations towards policyholders. This shows that it is important how an entity conducts its operations to increase the relevance of financial statements as this could lead to the need of different measurement models for a transaction depending on the business context.

- Section 7 - Presentation and disclosure: We agree with the IASB's intention to include general presentation and disclosure concepts in the revised Framework and think that deliberations how to overcome the problem of 'information overload' is essential. Although materiality will always be a matter of judgment, we are convinced that it is important for preparers and users of financial statements to have a common understanding on disclosure objectives.
- Section 8 - Presentation in the statement of comprehensive income: We support the use of OCI and believe that profit or loss should be the primary performance statement presented separately from OCI. Thus, OCI is needed to provide additional information that is relevant but would obscure the performance of an entity. There are strong arguments such as 'clean surplus' accounting that support recycling. For this reason, recycling of OCI should be a principle in the Framework. Under the industry proposal for Insurance Contracts and in line with the FVOCI category for simple debt instruments under IFRS 9, the OCI component represents a 'bridging item' as defined in the DP. From a conceptual perspective, the industry proposal and the FVOCI category for simple debt instruments are hence in line with the 'narrow approach' outlined in the DP which we tentatively favour over the described 'broad approach'. Current measurement is important for assets to adequately reflect the link to policyholder obligations and OCI recycling should also be possible for equity securities under IFRS 9. Otherwise, an accounting mismatch arises and a consistent presentation is impossible.
- Section 9 - Other issues: We support the IASB's preliminary view that financial statements can be made more relevant if the way how an entity conducts its business activities is considered and that such a general principle should be included in the Framework but that the business model as such should not be defined within the Framework. There is in our view a trade-off between considering how an entity conducts its business to faithfully represent these activities in the financial statements and comparability of financial statements. For this reason, we believe that the business model concept should not be overruling but that business activities should be considered in the respective standards, whenever this provides relevant information in line with faithful representation. To provide an example, macro hedging solutions could make it possible to better reflect the entity's risk management activities, which are a very important part of the business model.

Consistency should be an overall objective in the long run and potential deviations between the Framework and IFRSs should be carefully analysed and well understood. However, the Framework project should not delay the finalization of standards currently under development such as IFRS 4 and IFRS 9 or lead to the immediate reopening of existing IFRSs after its finalization. Our comments on certain questions raised in the DP are set out below as an appendix to this letter. If you would like to further discuss any matter included in this letter, please feel free to contact us.

Yours sincerely,



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Head of Group Accounting & Reporting



Dr. Roman Sauer
Head of Accounting Policy

Section 1: Introduction

Question 1

Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework.

The IASB's preliminary views are that:

the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

We appreciate the significant effort by the IASB to develop the DP on the Conceptual Framework with the objective of resolving problems that have been identified with the current Conceptual Framework. In our view, the Framework should maintain an important role which is why we believe that consistency with IFRSs is an important overall objective. For this reason, potential inconsistencies between IFRSs under development or existing IFRSs and the revised Framework should be carefully analysed. Should consistency not be achievable, we agree that deviations from the Framework need to be well understood and that the reasoning should be explained in the Basis for Conclusions.

In addition, there should not be specific parts of the Framework limited only to the use by the IASB as the Framework should be relevant to all constituents of IFRSs as a basis for interpretation.

Section 2: Elements of financial statements

Question 2

The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:

- a) An asset is a present economic resource controlled by the entity as a result of past events.
- b) A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- c) An economic resource is a right, or other source of value, that is capable of producing economic benefits.

Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

We agree with the revised definitions of an asset, a liability and an economic resource, although we are not fully convinced that these definitions are significant improvements compared to the existing definitions. From a preparer's perspective, it is essential to understand how a change in the definition of assets and liabilities might affect certain standards to be able to evaluate if the changes in the definition will result in changes in the recognition of certain items as assets and liabilities. Therefore, we would recommend further analysis on the impact of changing the existing definitions to ensure that the implications of the revised definitions are well understood.

Section 3 – Additional guidance to support the assets and liabilities definition

Question 5

Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of

narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50. Do you agree with this preliminary view? Why or why not?

We think that the definition of a liability should encompass both, legal and constructive obligations but would appreciate a more detailed description on the characteristics of a liability. Furthermore, additional guidance is necessary on how to distinguish between a constructive obligation and an economic compulsion (which unlike the constructive obligation does not result in a liability).

Question 6

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:

- a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.
- b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.
- c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

We support the IASB in rejecting View 1 but ask for further analysis on what distinguishes View 2 from View 3 in order to be able to better evaluate the proposals. For this purpose, the IASB could show scenarios when views 2 and 3 would lead to different results, e.g. under which circumstances no present obligation would arise under View 2 but under View 3.

Overall, we believe that the liability definition should be operational what could be difficult if the definition of a liability is too "broad". However, there may be specific cases that require a broader definition to assure faithful presentation such as participating insurance contracts.

Section 4 – Recognition and derecognition

Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction.

Possible approaches include:

- a) enhanced disclosure;

- b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or
- c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

In principle, we agree with the IASB to replace the concept of 'risks and rewards' with the concept of 'control' consistent with recent standards such as IFRS 10. However, it should be noted that the concept of 'risks and rewards' may in some case still be reasonable as an indicator of 'control'. We hence suggest pointing out that the exposure to risks and rewards might be an indicator to assess if an entity has 'control' under certain circumstances. An example in the context of IFRS 10 is that in structured entities where power may be difficult to identify as there is no substantive continuous decision-making, 'risks and rewards' may serve as a proxy for control (IFRS 10.BC30). This means that 'control' and 'risks and rewards' are not necessarily two different approaches as described in section 4.36 of the DP, but two concepts which are inherently linked.

We think that the Framework should only provide 'high level' conceptual guidance on principals of recognition and derecognition because the respective models for recognition and derecognition strongly depend on the nature of the asset and the unit of account. For this reason, details on when a transfer of an asset or liability leads to derecognition and how changes that result from transactions in which an entity retains a component should be portrayed must be specified in the respective IFRS rather than the Framework.

Section 5—Definition of equity and distinction between liabilities and equity instruments

Question 10

The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1–5.59.

In the IASB's preliminary view:

- a) The Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.
- b) The Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments.
- c) Two consequences of this are:
 - (i) Obligations to issue equity instruments are not liabilities; and
 - (ii) Obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)).
- d) an entity should:
 - (i) At the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity.
 - (ii) Recognize updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.
- e) If an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

We agree with the DP that the distinction between liabilities and equity instruments is currently complex, difficult to understand and to apply and that a consistent application of the liability definition and the elimination of inconsistencies between specific standards such as IAS 32 and IFRS 2 is an important objective.

The definition of equity as the residual interest in the assets of the entity after deducting all its liabilities should be retained as proposed by the IASB. We appreciate attempts to simplify the distinction between liabilities and equity and to enhance the statement of changes in equity by differentiating between claim holders although the concept of 'wealth transfer' seems to be complex.

Out of the two proposed approaches, we would support the 'strict obligation' rather than the 'narrow equity' approach. The narrow equity approach is conflicting with the entity theory and seems to be too restrictive although the simplicity of this approach to distinguish between equity and liabilities might seem appealing. The 'strict obligation' approach seems more appropriate, in particular as it might provide the opportunity to remove inconsistencies between IFRS 2 and IAS 32. However, we think that it is at the current stage not possible to assess if this approach is suitable under all circumstances and would like to ask the Board to continue with its research in this area.

Furthermore, we appreciate that the measurement to use for particular classes of equity claims and the treatment of non-controlling interests form part of the DP. In this context, we would like to mention that we believe that the accounting treatment of puttable non-controlling interests in the consolidated financial statements should be consistent with the accounting treatment of puttable interests in the financial statements of the subsidiary. The classification of such puttable interests as liabilities under IAS 32 has the disadvantage that if companies are obliged to recognize a liability for the right of the owner to redeem their shares at a variable price such as fair value, they would show 'net liabilities' which will increase when a company's value increases which is counterintuitive. In order to avoid this, we believe that puttable interests that represent the residual interest in the net assets of an entity should be classified as equity.

Section 6 – Measurement

Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:

- a) the objective of measurement is to contribute to the faithful representation of relevant information about:
 - i. the resources of the entity, claims against the entity and changes in resources and claims; and
 - ii. how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;
- c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;
- d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
 - i. for a particular asset should depend on how that asset contributes to future cash flows; and
 - ii. for a particular liability should depend on how the entity will settle or fulfil that liability.
- e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and
- f) the benefits of a particular measurement to users of financial statements need to be sufficient to jus-

tify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

We agree that measurement should differ depending on how assets contribute to an entity's cash flows and how liabilities are settled. To meet this purpose, a mixed measurement model is necessary because a single measurement basis for all assets and liabilities is unable to provide the most relevant information.

As discussed in further detail in section 8 on presentation in the statement of comprehensive income, we believe that profit or loss is the primary performance statement and that OCI should include items that are relevant but would obscure the 'performance' of the entity. In the context of measurement, it is particularly important for us as an insurance company that the interaction between assets and liabilities is considered. A mixed measurement model is important to reflect the link between assets and liabilities of insurance entities taking into account that the measurement bases which lead to most relevant information might differ depending on the characteristics of the insurance contract.

We welcome the Board's decision to introduce an OCI model in IFRS 4 and to reintroduce FVOCI in IFRS 9 as we see OCI as a vital element to adequately reflect the performance of certain insurance products in a current measurement environment but think that the OCI model should not be mandatory as described in further detail in our comment letter on IFRS 4. Furthermore, considering the interaction between the insurance accounting proposal and IFRS 9, we support an unconditional option to use FVOCI or amortized cost for simple debt instruments to reflect assets backing insurance liabilities in a current measurement environment.

Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96.

The IASB's preliminary views are that:

- a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.
- b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.
- c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.
- d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

Our response to Question 12 is included in the response to Question 13.

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:

- a) Cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
- b) A cost-based measurement will normally provide the most relevant information about:
 - i. Liabilities that will be settled according to their terms; and
 - ii. Contractual obligations for services (performance obligations).

- c) Current market prices are likely to provide the most relevant information about liabilities that will be transferred.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

Although, measurement principles should form part of the Framework, we think that the guidance finally included in the Framework (e.g. in the ED) should be more general than the descriptions in the DP because the measurement concepts should rather be defined in further detail in the respective IFRSs such as IFRS 4 and IFRS 9 to avoid unintended inconsistencies between the Framework and the standards.

While we think that the measurement concept of cash flow based measurements in the Framework is largely consistent with the concept of 'fulfilment value' in IFRS 4, we would like to point out that factor e) the non-performance risk mentioned in section 6.112 of the DP is not included in the current proposals on the measurement of insurance liabilities under IFRS 4. However, given that section 6.112 lists factors that *may* be considered in cash-flow-based measurements, this does not lead to an inconsistency.

As highlighted above, we believe that the criteria which financial instruments qualify for amortized cost and fair value through OCI measurement should be elaborated in IFRS 9, whereas the Framework should provide more general principles rather than including notions such as 'limited variability in contractual cash flows' which could lead to uncertainty how this relates to the business model concept used in IFRS 9.

Section 7 – Presentation and disclosure

Question 16

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:

- a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and
- b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:
 - i. a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;
 - ii. amendments to IAS 1; and
 - iii. additional guidance or education material on materiality.

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:

- a) presentation in the primary financial statements, including:
 - i. what the primary financial statements are;
 - ii. the objective of primary financial statements;
 - iii. classification and aggregation;
 - iv. offsetting; and
 - v. the relationship between primary financial statements.
- b) disclosure in the notes to the financial statements, including:
 - i. the objective of the notes to the financial statements; and
 - ii. the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.

Our response to question 16 is included in the response to Question 17 provided below.

Question 17

Paragraph 7.45 describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality.

However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

We agree with the IASB's intention to include general presentation and disclosure concepts in the revised Framework and think that deliberations how to overcome the problem of 'information overload' is essential. Although materiality will always be a matter of judgment, we are convinced that it is important for preparers and users of financial statements to have a common understanding on disclosure objectives. The debate on disclosure objectives has existed since years and the IASB may benefit from related work by EFRAG conducted in partnership with ANC and ASB in the Disclosure Framework Project.

Section 8 – Presentation in the statement of comprehensive income – profit or loss and other comprehensive income

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognized in OCI to be recognized subsequently in profit or loss, ie recycled, is discussed in paragraphs 8.23–8.26.

Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?

Profit or loss should be the primary performance statement and its total should be presented separately from OCI. OCI is needed to provide additional information that is relevant but would obscure the 'performance' of an entity if reported directly in profit or loss.

There are strong arguments in favour of recycling including valuation models that require 'clean surplus' accounting, meaning that all changes in shareholder's equity should be reflected in profit or loss except transactions with owners. This relation is considered to facilitate a clean articulation of financial statements. We believe that the Framework should contain a general principle that items of income and expense included in OCI should be recycled through profit or loss.

Without the possibility of recycling, the performance of an entity might not be portrayed appropriately. An important example is the absence of recycling for equity instruments measured at FVOCI under IFRS 9. Since equity securities are linked to benefits paid to policyholders on realisation, a significant accounting mismatch arises when recycling of realized gains and losses is impossible.

Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79–8.94).

Which of these approaches do you support, and why?

If you support a different approach, please describe that approach and explain why you believe it is preferable to the approaches described in this Discussion Paper.

We think that the deliberations on certain categories such as ‘mismatched remeasurements’, ‘bridging items’ and ‘transitory remeasurements’ are helpful to develop a conceptual basis for the use of OCI, although we believe that further research is required to develop sound principles on which items should be included in OCI versus profit or loss. The ‘performance reporting’ project should provide further insights and represents an important project because understanding performance is challenging but key for users of financial statements including financial analysts.

Under the industry proposal for Insurance Contracts (Alternative Approach) and the FVOCI category for simple debt assets in IFRS 9, the OCI component represents a ‘bridging item’ as defined in the DP. From a conceptual perspective, the industry proposal and the FVOCI category for simple debt instruments that would apply to a large proportion of our assets are hence in line with the ‘narrow approach’ outlined in the DP. The industry proposal refers to the effect from applying two different discount rates for the statement of financial position and profit or loss – a current discount rate for the statement of financial position and an asset dependent unlocked rate for participating contracts for profit or loss (please refer to our comment letter on IFRS 4 for further details). As highlighted above, current measurement is important for assets to adequately reflect the link to policyholder obligations. Although the FVOCI category for simple debt assets is in line with the ‘narrow approach’, inconsistency arises with regard to equity instruments if recycling of realized gains and losses is impossible. To avoid such an inconsistency, OCI recycling should also be possible for equity securities under IFRS 9.

Section 9 – Other issues

Question 23

Business model

The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB’s preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define ‘business model’? Why or why not?

If you think that ‘business model’ should be defined, how would you define it?

We support the IASB’s preliminary view that financial statements can be made more relevant if the way how an entity conducts its business activities is considered and that such a general principle should be included in the Framework but that the business model as such should not be defined within the Framework. There is in our view a trade-off between considering how an entity conducts its business to faithfully

represent these activities in the financial statements and comparability of financial statements. For this reason, we believe that the business model concept should not be overruling but that business activities should be considered in the respective standards, whenever this provides relevant information in line with faithful representation. An example in the context of insurance would be macro hedging because macro hedging solutions could make it possible to better reflect the entity's risk management activities, which are a very important part of the business model.

Question 24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

We agree with the IASB's view that the unit of account should be specified in the respective Standard to clarify the basis for identification and treatment of particular assets and liabilities. There are various areas for which the unit of account issue applies such as IAS 36 on impairment, IFRS 13 on fair value measurement of assets and liabilities in general as well as IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments (e.g. business model assessment and hedge accounting).