Federation of European Accountants
Fédération des Experts comptables Européens

Ms. Françoise Flores
TEG Chair
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: commentletters@efrag.org

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Ref.: ACC/AKI/HOL/IDS

Dear Ms. Flores,

Re: FEE Comments on IASB Discussion Paper: *A Review of the Conceptual Framework for Financial Reporting*

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the draft EFRAG's response to the IASB Discussion Paper: *A Review of the Conceptual Framework for Financial Reporting*.

FEE welcomes the IASB Discussion Paper, which is a new step towards the finalisation of the comprehensive revision of the Conceptual Framework initially issued in 1989. We do believe that the Conceptual Framework is an important document as it should demonstrate the global consistency of the financial reporting model developed by the IASB and help solve a number of transversal issues among different Standards.

Role of the Conceptual Framework vis-à-vis individual Standards

We believe that the Conceptual Framework has a dual role: (i) assist the IASB in setting standards by identifying concepts to be used consistently when developing Standards and (ii) help stakeholders interpret existing IFRS and in particular preparers develop accounting policies in the absence of a Standard that specifically applies to a transaction. As the Conceptual Framework is expected to assist preparers in the absence of an applicable Standard, it is important that the Conceptual Framework provides an appropriate level of detail with respect to principles.

There will often be a trade off between, on the one hand, entering into too many details in a conceptual document and, on the other hand, reducing the relevance of the document by restricting the discussion to very high level principles and leaving their development to be addressed standard by standard. Currently, in our opinion, some of the key concepts are insufficiently developed in the DP. These include the determination of the unit-of-account and the related issue of unbundling, the definition of control, other than control over a business, the definition of performance, the role of the business model and issues surrounding recognition and derecognition.

Although FEE agrees with the IASB that some conflicts between principles in the Conceptual Framework and in individual Standards may be unavoidable, we believe that the identification of the main potential conflicts with existing Standards and Interpretations should be part of the process to finalise the new Conceptual Framework. There are two main advantages in identifying major inconsistencies: firstly it will help making the right decision when current Standards are not consistent with each other; secondly the IASB will have to consider resolving inconsistencies to the extent possible and assess whether the conflicts should be removed in a forthcoming agenda consultation.

Furthermore, we note that IAS 8 paragraph 11 requires that, in the absence of an IFRS that specifically applies to a transaction, management give priority to a relevant Standard over the Conceptual Framework in developing a specific accounting policy. It will be important to consider whether this requirement will continue to produce the most relevant accounting policy when the new Conceptual Framework is issued. The use of professional judgement by management in this respect should also be considered. In the circumstances contemplated in IAS 8.11, the appropriateness of giving priority to a Standard that is not consistent in all respects with the new Conceptual Framework is open to question.

In a limited number of cases and in response to a need for pragmatism, we would accept that the IASB could develop a new Standard that conflicts, in some aspects, with the Conceptual Framework. Since the Conceptual Framework should not be considered as set in stone forever, inconsistencies/conflicts that arise in the development of new Standards may indicate a need to reconsider some of the principles established in the Conceptual Framework.

Definition and presentation of assets and liabilities, profits and losses

In our view, assessing the impact of the new definitions on existing material (Standards and Interpretation) is important for both assets and liabilities. The new definition of assets is clearly much broader than the current definition, and may encompass assets not currently recognised for good reasons, for example because economic benefits are not probable. Accordingly, this broader definition will put additional weight on the recognition criteria to ensure that the information conveyed by the balance sheet is relevant (we do not believe that this issue can be addressed solely through measurement). The proposed definition of liabilities raises equally important conceptual questions which cannot be answered without an in-depth analysis of the impact on existing Standards.

FEE agrees with the IASB that the profit or loss notion is deeply ingrained in the economy, business and investors' minds. Profit or loss is also an important measure used by management to communicate its accountability to shareholders. We believe that it is critical that a (sub-) statement be retained for profit or loss and that such a statement should have equal importance to other comprehensive income. We also believe that profit or loss should provide a measure of the entity's performance during a period that is representative of the business model of the entity. This notion should be defined positively, rather than be determined as the total of changes in assets and liabilities during the year, except for certain amounts identified for recognition in other comprehensive income and changes arising from capital transactions.

Because the measurement of the profit or loss items is as important as the measurement of the balance sheet items, recognition and measurement must also be addressed with profit or loss in mind. Defining performance in the Conceptual Framework and establishing how to deal with changes in assets and liabilities that do not constitute profit or loss would relieve some pressure from the determination of the appropriate measurement basis to be used for the various elements. As further explained in our response to Question 4, usually it will be preferable to use the same measurement basis for both balance sheet and profit or loss purposes. However, there may be circumstances where that cannot be achieved.

Other comprehensive income could then encompass changes in assets and liabilities that do not correspond to the definition of profit or loss.

Recognition and Measurements

It is essential to define the general recognition principles at the Conceptual Framework level in order to reduce the risk of inconsistencies among Standards. These recognition principles could be developed starting from the principles discussed in paragraphs 4.25 and 4.26 of the Discussion Paper. We highlight that we do not believe that the recognition criteria established for assets would necessarily be symmetrical in all respects to those established for liabilities. Specific details on the application of these general recognition principles would be addressed at the standard level.

Similarly, it is important to establish the general principles of derecognition at the Conceptual Framework level. While it may be desirable to have one single derecognition model applicable equally to financial and non-financial items, we note that much has already been performed on the issue of derecognition of financial items without significant progress towards a new consensus. Hence a single derecognition model may not be achievable However, it might be useful to consider the principles in IAS 39 as an acceptable compromise with respect to derecognition of financial items.

FEE agrees with the preliminary views expressed by the Board that it would not be possible to produce relevant financial statements if a single measurement basis was applied to all items. We support that the IASB further considers the role that the business model should play in selecting the appropriate measurement basis to be applied to a given item.
At this stage, we note that a number of concepts relating to measurement (e.g. cost, exit value, cash flow method, etc.) remain undefined. We expect the Conceptual Framework to be a comprehensive document, which means that it will be understandable without referring to definitions existing in the other material, such as Standards. In terms of measurement, we would expect the Conceptual Framework to set out the principal methods available to measure items under IFRS and to explain the methods and circumstances when each method would be relevant.

Liability and Equity

We agree that there is a need to present separately equity and liabilities in the statement of financial position. Regarding the distinction between equity instruments and liabilities the strict approach proposed in the DP may be preferable. However, we do not believe that the "wealth transfer" concept provides a measure of dilution that is relevant to the financial statements.

Presentation and disclosures

General principles are still lacking for a system that would provide necessary information but avoid disclosure overload. In our view, the Conceptual Framework should include general guidance on how to establish minimum disclosure requirements at the standard level as well as a general provision as to the conditions under which additional disclosure requirements will be necessary. In this respect, the Conceptual Framework would explain the role of materiality and relevance in achieving the appropriate level of information required.

Other issues

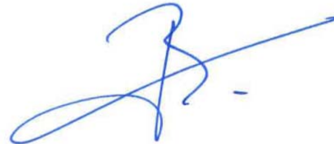
FEE agrees with EFRAG that Chapters 1 and 3 of the Conceptual Framework should be revisited. In particular, the concept of prudence, which is already used in different Standards, should be included in the Conceptual Framework. It would be necessary to explain the role of prudence in financial reporting to avoid misunderstanding with the approach which is often put forward by regulators.

While we do not consider that major changes are required with respect to stewardship, we nonetheless believe that it is important for the Conceptual Framework to acknowledge that financial reporting also serves as a communication tool between management and shareholders regarding stewardship and accountability.

Furthermore, we consider that it is important that the IASB develops additional guidance on materiality as part of the Conceptual Framework addressing the application of materiality and its relevance to disclosures. While the concept of materiality covers both qualitative and quantitative aspects, additional guidance should address qualitative aspects only.

Please find in the annex below the FEE responses to the questions raised in the Discussion Paper. For further information on this letter, please contact Hilde Blomme, from the FEE Team on +32 (0)2 285 40 77 or via e-mail at hilde.blomme@fee.be.

Yours sincerely,



André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Question 1 Purpose of the Conceptual Framework

Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

- **(a) 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**
- **(b) 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 believe that the CF[1] has a dual role: (i) assist the IASB in setting standards by identifying concepts to be used consistently when developing Standards and (ii) help stakeholders interpret existing IFRS and preparers develop accounting policies in the absence of a Standard that specifically applies to a transaction.

The CF can also play an important role in promoting the use of IFRS in the world. It should reflect the key principles underlying the development of IFRSs. This permits prospective adopters to be aware of the underlying principles when determining whether or not to adopt IFRS.

To achieve these goals, the CF must stay at the level of principles and cannot address all details. When preparing the draft CF, the IASB should try to reach the right balance between concepts, background information and consequences for standard setting. This would not only provide a robust framework for IFRSs as a whole but also improve consistent interpretation and application of individual IFRSs. Providing excessive details in some parts whereas in other places the DP sends conceptual issues back to individual Standards shows that more work still needs to be done.

As indicated in greater details in our response to other Questions, currently, we find that some of the key concepts are insufficiently developed in the DP. These include the determination of the unit-of-account and the related issue of unbundling, the definition of control (other than control over a business), the definition of performance and the related issue of the role of other comprehensive income, the role of the business model and issues surrounding recognition and derecognition.

Although FEE agrees with the IASB that some conflicts between principles in the CF and in individual Standards may be unavoidable, we believe that the identification of the main potential conflicts with existing Standards and Interpretations should be part of the process to finalise the new CF. There are two main advantages in identifying major inconsistencies: firstly it will help making the right decision when current Standards are not consistent with each other; secondly the IASB will have to consider resolving inconsistencies to the extent possible and assess whether the conflicts should be removed in a forthcoming agenda consultation.

[1] In the answers to questions we use CF as abbreviation for Conceptual Framework and DP as abbreviation for Discussion Paper.

Further, we note that IAS 8 paragraph 11 requires that, in the absence of an IFRS that specifically applies to a transaction, management give priority to a relevant Standard over the CF in developing a specific accounting policy. It will be important to consider whether this requirement will continue to produce the most relevant accounting policy when the new CF is issued. In the circumstances contemplated in IAS 8.11, the appropriateness of giving priority to a Standard that is not consistent in all respects with the new Conceptual Framework is open to question.

If the CF achieves its objective of setting out the concepts underlying the preparation and presentation of financial statements, we would expect that these concepts will then be used consistently when developing Standards. Consistent application and interpretation of Standards could be compromised where an individual Standard would introduce variations in the concepts which are used in the CF or in other Standards. Therefore, each new Standard should include a specific demonstration that it reflects the principles established in CF or why, if such is the case, it is necessary for a Standard to depart from the CF.

Indeed, we accept that, in rare circumstances and in response to an obvious and broadly accepted need for pragmatism, the IASB could develop a new Standard that conflicts, in some aspects, with the CF. Since the CF should not be considered as set in stone forever, inconsistencies/conflicts that arise in the development of new Standards may indicate a need to reconsider some of the principles established in the CF.

Question 2 Definitions of an asset and a liability

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?

Question 3 Uncertainty

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB's preliminary views are that:

(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

- **(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.**

(c) the recognition criteria should not retain the existing reference to probability.

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

FEE acknowledges that the definitions of an asset and a liability proposed in the DP appear simpler and easier to understand. However, we believe that certain elements of the definitions deserve further consideration.

The new definition of assets is much broader than the current definition, and may encompass assets not currently recognised. The DP proposes to replace the concept of "future economic benefits expected to flow to the entity" with "a right that is capable to producing economic benefits". While we agree that the concept of "expected" raises questions such as those identified in DP 2.18, we are concerned that the proposed change is quite fundamental in that it seems to imply a very low threshold of likelihood for establishing the existence of an asset. The word "capable" is much less restrictive so that items previously not recognised for good reasons would qualify as assets. Accordingly, this broader definition will put additional weight on the recognition criteria to ensure that the information conveyed by the balance sheet is relevant (we do not believe that this issue can be addressed solely through measurement).

The IASB should assess carefully the consequences of this broader definition of an asset not only in terms of the impact on recognition and measurement, but also in terms of disclosures in the financial statements: will this lead entities to disclose in the notes to the financial statements assets for which the probability of economic benefit is low based on the fact that the definition is met?

Furthermore, an item might be principally capable of generating economic benefits but only in a specific (economic, political, social) environment which might not prevail for a specific reporting entity. Although the definition already refers to "economic resource controlled **by the entity**", IASB's preliminary views (DP 2.35) would have been clearer in explicitly referring to the ability to produce economic benefits assessed from the entity perspective.

It also appears necessary to address what control over present economic resources means as this is at the core of some of the difficult issues that the IASB attempted to resolve in recent years. For example, at what level is it necessary to assess control? Is it control over a physical asset, over the cash flows generated by an asset, over a right or a bundle of rights? This will be essential in assessing what is a right-of-use. Another issue to address is whether control over economic resources is always obtained through contractual rights or whether it can arise because another party has no practical ability to avoid providing the entity economic resources. This appears to be a key question to answer in resolving the issue of rate-regulated assets.

The proposed definition of liabilities raises equally important questions making the choice between IASB's views 2 and 3 very difficult without an in-depth analysis of the impact on existing Standards.

FEE agrees that there is a difference between "existence uncertainty" and "outcome uncertainty". However, the two can sometimes be difficult to distinguish and we wonder whether it is relevant to try to address the consequences of each differently. Where neither the existence of an asset nor its future economic benefits is virtually certain, FEE believes that the asset should not be recognised. Further work is required to assess whether this outcome is best achieved by addressing the issue in the definition or in the recognition criteria of an asset since it would not appear appropriate to attempt to address this issue solely through measurement. Indeed, if this issue is addressed through measurement, it

would result in presentation on the balance sheet of assets of different quality that would obscure the true financial position of an entity. This is why it appears necessary to ensure that the criterion of probability/uncertainty be introduced in the recognition criteria.

The impact of uncertainty (and probability) on recognition of assets and liabilities cannot be addressed solely at the standard level. It is a fundamental question for which guiding principles are required at the CF. For example, is the same level of probability required in determining whether an asset or a liability should be recognised? We believe that there is no need for symmetry between the recognition criteria applicable to assets and liabilities.

While we encourage the IASB to further develop the definitions and the principles underlying recognition of assets and liabilities to be established in the CF, we recognise that all issues cannot be addressed at that level and some issues will need to be addressed at the standard level. For example, even though internally generated goodwill may meet the definition (and criteria for recognition) of asset, we expect that the determination of whether to recognise such amounts could be addressed at the standard level.

Question 4 Other Definitions

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52.
Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

It is regrettable that the concept of performance is not adequately addressed.

While income and expenses may appropriately result from changes in assets and liabilities (this seems a mechanical consequence of the double entry system), this does not contradict or prevent an affirmative definition of performance that would identify those income and expenses that are part of the performance of the current reporting period from other changes in assets and liabilities that would be included in the measurement of performance.

Defining performance at the CF and establishing how to deal with changes in assets and liabilities that do not constitute current period performance would relieve some pressure from the determination of the appropriate measurement basis to be used for the various elements. Generally, it will be preferable to use the same measurement basis for both the balance sheet and the statement of profit or loss. However, circumstances can arise where a measurement basis is determined not to provide relevant information in terms of both the balance sheet and the statement of profit or loss. For example, fair value may be determined to represent the most relevant basis of measurement for certain assets and liabilities from a balance sheet perspective, but at the same time it may be determined that recognition of the resulting gains and losses in profit and loss of the period may not provide measure of the entity's performance of the period that is representative of its business model. A clear definition of performance is necessary in order to establish a benchmark against which to assess the relevance of a measurement basis from a profit or loss perspective.

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be

Another reason why it is important to provide principles supporting the distinction between changes in balance sheet amounts that should constitute current period performance vs. those that should be presented in OCI is to reduce the inconsistencies observed in current Standards. For example, one can question why actuarial gains and losses are recognised in OCI whereas changes on other equally long term liabilities such as certain site restoration costs are recognised in profit and loss. We have provided further comments on this issue as part of our response to Questions 20 and 21.

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?

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.

Legal enforcement and contracts are the main sources of obligation. FEE supports the current definition of liability which encompasses both obligation and constructive obligation, noting however that contractual clauses that lack substance may not result in obligations.

In our opinion, restricting the definition of liability to obligations that are enforceable by legal or equivalent means is too restrictive. This is why we agree that view 1 should be rejected because it would sometimes identify liabilities too late. Instead, it is appropriate to

investigate whether constructive obligation should receive a clearer and possibly broader definition. While constructive obligations arise when others can require the entity to act in a certain way, it appears necessary to assess to what extent non-contractual obligations can arise in other circumstances.

The concept of "practical ability to avoid" may be an appropriate way to define those other obligations (apart from obligations that are enforceable by legal contract or equivalent) that should be recognised. These may be thought as obligations that are required to comply with accountability, governance and going concern. To some extent, view 3 could be encompassed within the concept of "practical ability to avoid". It is matter of setting the boundaries of this concept.

If the circumstances in which an entity is considered not to have a practical ability to avoid the transfer of economic resources are limited to extreme, non-economically realistic scenarios (e.g., liquidation of the entity or voluntarily avoiding make sales), then this may also be too restrictive.

FEE believes that view 2 presented above may be the most appropriate, but accepts that the concept of "practical ability to avoid" needs to be developed. However, we question the answer to scenario 5 in view 2.

Paragraph 3.49 suggests distinguishing between obligation and economic compulsion. FEE fears that the proposal in the DP will not bring the expected clarification. Would that mean that "economic compulsion" creates a new situation leading to a constructive obligation or that a third category is added? Paragraph 3.52 indicates that further guidance should not undermine existing requirements for well-understood examples of constructive obligations. Economic compulsion is equally judgmental as the current definition of constructive obligation. If the IASB wants to go ahead with the concept of economic compulsion, it should clarify what kind of change this would imply in practice.

Question 7 Comments on other guidance

Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?

In our view, the IASB should provide more guidance in the CF on executory contracts, in particular its relationship to the notion of right-of-use. This seems to be a key issue that results in broadly different accounting. The issue of whether a right-of-use represents an asset is also linked to the issue of control mentioned in our response to Question 2 and the issues of the unit of account and unbundling, all of which require further consideration.

Question 8 Recognition criteria

Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because:

- **(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or**
- **(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the**

asset (or the liability), even if all necessary descriptions and explanations are disclosed.

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

The proposed broad definition of an asset would encompass many items not currently recognised in the financial statements and we are not convinced that addressing recognition solely at the standard level is appropriate.

Indeed, FEE is not convinced that the references to the qualitative characteristics of relevance and faithful representation would provide sufficient guidance to ensure that consistent solutions are found at the Standard level. The IASB will have to consider arguments of different stakeholders with different interests when approving individual standards, without having the possibility to rely on robust recognition principles in the CF.

Although we consider that a standard-by-standard approach is inevitable to provide detail on the specific application of the recognition principles to the different elements of the statement of financial position and the statement of comprehensive income, it would be important to define recognition filters at CF level, in order to reduce the risk of inconsistencies among Standards. These recognition filters could be developed starting from the principles discussed in paragraphs 4.25 and 4.26 of the DP. As illustrated in these paragraphs, they could notably address the availability of reliable measurement methods and include some form of probability test (which does not mean quantitative thresholds only).

Additionally, we do not believe that there is a need for symmetry between the recognition filters applicable to assets and those applicable to liabilities.

In establishing recognition criteria, the IASB should consider whether a single model can be applicable to financial and non-financial assets.

Question 9 Derecognition

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?

FEE has concerns with the basic premise set out in the first sentence preliminary views that "derecognition of an asset or a liability is required when it no longer meets the recognition criteria (i.e. derecognition should be based on a loss of control approach)". This

premise is not consistent with the text of paragraph 4.30 which refers equally to the control approach and the risk-and-rewards approach. Although the loss-of-control approach could work for derecognition of most non-financial assets, we do not believe that it will work for derecognition of financial assets.

The DP does not address the issue of a modification of an asset. Therefore it is unclear whether the loss-of-control approach would be appropriate in order to determine in these instances whether an entity should derecognise or not.

While it may be desirable to achieve a single derecognition model applicable equally to financial and non-financial items, we note that much work has already been performed on the issue of derecognition of financial items (albeit at the Standard level) without significant progress towards a new consensus. Hence this may not be an achievable outcome and it may be necessary to consider the principles in IAS 39 as an acceptable compromise with respect to derecognition of financial items.

We regret that the DP does not propose an approach for derecognition when the entity retains a component, but suggests that the issue be addressed at the Standard level. The level at which derecognition is assessed is a key issue directly linked to the critical issue of the unit of account. If we consider that an asset is a bundle of rights, it would be advisable to discuss at what level recognition and derecognition should apply: it is determined for the entire asset or part of it? Similar considerations would apply to liabilities. FEE would expect the IASB to perform further work on this issue.

Additionally we fail to see how an approach solely based on the loss of control could be applied to the derecognition of financial liabilities.

Question 10 Equity *v* Liability

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. 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)).**

(c) 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) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.**

(d) 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 that there is a need to present separately equity and liabilities in the statement of financial position. We do not favour an alternative presentation that would result in a list of claims on the entity's assets, allowing users of financial statements the discretion of establishing a dividing line based on information on the characteristics of the claims given in the notes to the financial statements.

We support the proposal that the CF should retain the existing definition of equity as the residual interest in the assets of an entity after deducting all its liabilities. We agree with the definition given in paragraph 5.7 d) (i.e. that an equity instrument is an issued financial instrument that creates equity claim and creates no liability).

With respect to the distinction equity vs. liability, we agree that the strict obligation approach proposed in the Discussion Paper might be preferable. However, we disagree that an entity with no instrument that meets the definition of an equity instrument should treat the most subordinated class of instruments as if it were an equity claim. We recognise that, as a result, some entities may not have "equity".

We regret that the DP does not address hybrid instruments, in particular with respect to the principles establishing when it is necessary to recognise separately the different components of such instruments. This is another issue that relates to the issue of the unit of account that should be addressed at the CF level. Once this is resolved, the issue of principles of measurement of each component would also need to be considered.

We are not convinced by the "wealth transfer" concept used to describe changes in secondary equity claims. Indeed, while it is important for users of financial statements to be informed on dilution, we do not believe that the remeasurement proposed or the transfer of the changes of value between the two categories of equity provides a relevant measure of dilution. In particular, we do not agree with the arguments presented in paragraphs 5.17 and 5.18 and the related measurement methods. We encourage the Board to consider other means of informing users of the relative rights attached to the various classes of equity instruments.

We note that in applying the principles to derivatives on an entity's own shares and on non-controlling interests, the key criterion is whether or not there will be a need to transfer cash to acquire the shares. If so, the instrument is considered as a financial liability. If not, it is an equity instrument. The problem with the proposal is that it is very form driven. Indeed, it is difficult to accept a conclusion that an obligation to transfer a variable number of shares corresponding to a fixed monetary value is not a liability. Instead, we propose that the distinction for such instruments should be based on whether or not an entity's own shares are used for settlement as a form of currency. Such an approach is more likely to capture the substance of transactions than either the current fixed-for-fixed approach or the approach proposed in the DP.

A contrario, it is counterintuitive to consider that a sale of a put over non-controlling interests is always a liability that must be remeasured through profit and loss. This issue remains unresolved by the proposal in the DP. One of the difficulties that must be addressed is that although non-controlling interests are classified as equity, such interests nonetheless present characteristics of assets. Where an entity has an obligation to acquire an asset, depending on the nature of the asset and the terms of settlement of the contract,

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
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the entity usually either considers that it has an executory contract or a derivative instrument. It would be important to consider whether (and if so, why) such treatments would not be more relevant for non-controlling interests puts.

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 justify 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 with the preliminary views expressed by the Board. Indeed, we believe that it would not be possible to produce relevant financial statements if a single measurement basis was applied to all items.

However, we question the relevance of the principle set out in (e) above as part of the CF. The objective should be to identify the measurement basis that results in the most useful and relevant information for the various items. Attempting to set out a maximum number of measurement bases sends a contradictory message of the objective sought. Furthermore, we question the usefulness of such a principle: we do not envisage that multiple unnecessary measurement bases would develop if the principle set out in (e) was omitted.

With respect to the principle in (f), we believe that the assessment of cost - benefits of a proposed measurement basis should be addressed at the Standard level.

FEE supports that the IASB further considers the role that the business model should play in selecting the appropriate measurement basis to be applied to a given item. We provide further thoughts on the role of the business model in our response to Question 23.

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.

FEE broadly supports the approach of the IASB towards subsequent measurement of assets. However, at this stage, we consider that more work is needed to ensure that the IASB proposals can be applied in practice. This topic needs substantially more work before the exposure draft stage.

For example, one could say that manufactured goods contribute directly to future cash flow by being sold and, accordingly, based on the principles above, would be measured at the exit price. We do not believe that this is the intended outcome (and we would not support such a treatment). Another example of unclear results of the current proposals relates to retailers' stocks, which are usually measured at historical cost. Similarly to manufacturers' finished goods, retailers' inventories are the last stage in a process of physical transformation, by division and relocation into amounts and to places where they can be sold to retail customers. Hence, we consider that further consideration is required.

With respect to the specific views expressed in Question 12, we have the following observations

- View (a): First, we believe that the criterion proposed is relevant to subsequent measurement on non-financial assets and we suggest that this should be specified. Second, we are not sure that the criterion proposed properly encompasses all items that should be valued on cost-based measurement. As noted above, it is not clear how manufactured goods are caught by the

criterion, except through the view that their fabrication and hence their contribution to cash flows depends on other assets (the equipment used, the selling infrastructure, etc). However, if one adopts such a broad view to ensure that manufacturing goods are encompassed, it seems that most assets of the entities would also be caught by the criterion.

- View (b): First, we believe that the criterion proposed is relevant to subsequent measurement of both financial and non-financial assets and we suggest that this should be specified. Second, in order to avoid encompassing inventory for which a cost measurement would be appropriate (as indicated above), we believe that the description should refer to "traded (actively buy and sell) on an active market" rather than to "being sold".

- View (c): we disagree with the difference in treatment for financial assets proposed above in Question 12 and for financial assets and liabilities proposed in Question 14. We believe that a more appropriate treatment for financial assets would be described as follows "if financial assets are held for collection, a cost-based measurement is likely to provide relevant information except if the ultimate cash flows are not closely linked to the original cost or if there is significant variability in contractual cash flows. In such cases, a current value would be appropriate."

- View (d): as drafted, it is difficult to understand what items would be caught by the criterion and what measurement basis would ensue. Presumably, this fourth category is required to address the subsequent measurement of financial assets that are excluded from views (b) and (c), principally because they are held for the dual purposes of collecting cash flows but with the possibility of a sale depending on how circumstances evolve. This should be clarified and the principles applicable should be defined accordingly.

We believe that cost-based measures are often justified as superior to other measures on the basis of verifiability or on the basis of cost-benefits analysis. It would be helpful to recognise this as part of the identification of the situations where cost-based measures are recommended.

If, as we suggest, the business model is considered in assessing classification and measurement, it must be accepted that a specific asset would have a different measurement basis if used differently. There may also be assets held for use for more than one purpose over time (e.g., leased for a period and then held to be sold). Accordingly, this implies the need to address, at the standard level, how to account for the change in measurement basis that would result from the change in category.

Although 6.73 and subsequent paragraphs discuss subsequent measurement of assets, the notions of impairment and amortisation are not considered as part of that discussion. This is regrettable as these matters affect subsequent measurements.

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.

We generally agree with the principle behind with view (a) above, but suggest that it should be clarified that the measurement is based on current assumptions as of the date of the subsequent measurement. Furthermore, the issue of whether the current measurement should reflect changes in an entity's own credit risk is an important issue that must be addressed at the framework level. Our preliminary view is that such adjustments would only be relevant for obligations for which transfers are intended (by reference to the entity's business model).

We note that the expression "cost-based" is inappropriate as far as liabilities are concerned. "Proceeds-based" would be more acceptable. Furthermore, we are not sure that this approach would be adequate in all cases that point (b) is meant to cover, for instance a defined-benefit pension liability.

With respect to view (c), we note that transfers of liabilities are uncommon. However, trading of liabilities can arise. Hence, it would be clearer if view (c) proposing current market price measurement referred to rare circumstances where liabilities can be transferred or traded on an active market.

Question 14

Paragraph 6.19 states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

(a) if the ultimate cash flows are not closely linked to the original cost;

(b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or

(c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).

Do you agree with this preliminary view? Why or why not?

FEE generally agrees with this preliminary view. However, we believe that the fact that a cost-based measurement is not relevant in specific circumstances should not automatically lead to the conclusion that an item must be measured at an exit price. It should be considered whether a cash-flow based measurement would not be relevant in these circumstances.

Question 15

Do you have any further comments on the discussion of measurement in this section?

At this stage, we note that a number of concepts relating to measurement (e.g. cost, exit value, cash flow method, etc.) remain undefined. The CF should be a comprehensive document, which means that it will be understandable without referring to definitions existing in the other material, such as Standards. In terms of measurement, we would expect the Conceptual Framework to set out the principal methods available to measure items under IFRS and to explain the methods and circumstances when each method would be relevant.

Because the measurement of the profit or loss items is as important as the measurement of the balance sheet items, recognition and measurement must also be addressed with profit or loss in mind. Where a measurement basis is determined not to provide relevant information in terms of both the balance sheet and the statement of profit or loss, it may be appropriate to challenge whether another measurement basis would not be preferable.

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 of the DP), 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.

We generally agree with the views expressed with respect to presentation. However, as previously indicated, we regret that the concept of performance is not better developed.

Furthermore, we believe more work is required with respect to disclosures since general principles are still lacking for a system that would provide necessary information but avoid disclosure overload. In our view, the Conceptual Framework should include general guidance on three key issues related to disclosures.

The first issue to be addressed is determining the scope of the information that should be conveyed in notes to financial statements. The scope would essentially consist of providing additional details to support and complement information about the performance and financial position conveyed by the primary statements as well as explaining significant judgement and estimates.

Second, the CF should set out a principle that Standards should clearly establish what are the minimum disclosures required and, if necessary, provide additional guidance on elements that may be relevant. However, it would be important that this guidance avoid the term “shall disclose”.

Third, the CF should explain how the concepts of materiality and relevance apply to disclosures. We envisage that these concepts would guide the behaviour of users and regulators away from a checklist mentality.

The discussion in 7.38 and subsequent paragraphs on forward looking information should be clarified. By referring to the fact that notes provide information about existing assets and liabilities, it could be understood that information regarding non adjusting post balance-sheet items would be excluded. We presume that this is not the intention and therefore, recommend clarification.

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?

The concept of materiality plays an important part in the debate on keeping financial statements fit for purpose in the 21st century. There are several initiatives that have been launched at national, European and global level looking into this issue, mainly in the context of improving relevance by reducing unnecessary disclosure and making the information provided less boilerplate and more meaningful.

In response to a recent request for comment by ESMA, FEE indicated that it believes that materiality is the responsibility of the IASB rather than that of the regulators. Accordingly it

is important that the IASB affirms its role in the definition of materiality by including further guidance on materiality as part of the CF.

FEE fully supports promotion of the principles of relevance and materiality in financial reporting since we believe progress is necessary to focus corporate reporting on key issues, providing users of annual reports an informative insight into the reporting entity, its performance and financial position, without irrelevant clutter of data or boilerplate description provided merely to formally meet requirements in a Standard.

The principles in paragraph 7.46 of the DP represent a starting point of that guidance. The guidance would help in determining what information should be required for disclosures if it addressed how to determine whether an item of information is likely to influence the judgement of users of the financial statements.

The concept of materiality covers both qualitative and quantitative aspects but the principles in the CF should provide guidance on qualitative aspects only. Furthermore, if a small piece of disclosure is missing, this does not mean per se that the financial statements do not meet qualitative characteristics.

Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.
Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

We agree, noting however that the CF is not the right place to address guidance in respect of an electronic format of financial statements.

Section 8 – Presentation in the statement of comprehensive income

Question 19

The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.
Do you agree with this preliminary view? Why or why not? If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?

FEE agrees with the IASB that the profit or loss notion is deeply ingrained in the economy, business and investors' minds. Profit or loss is also an important measure used by management to communicate its accountability to shareholders. We believe that it is critical that a statement be retained for profit or loss and that such a statement should have equal importance to total comprehensive income.

We also believe that profit or loss should provide a measure of the entity's performance during a period that is representative of the business model of the entity. This notion should be defined positively, rather than be determined as the total of changes in assets

and liabilities during the year, except for certain amounts identified for recognition in other comprehensive income and changes arising from capital transactions.

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in in OCI to be recognised subsequently in profit or loss; i.e. recycled, is discussed in paragraphs 8.23–8.26.
Do you agree with this preliminary view? 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?

Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in the 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 why do you believe it is preferable to the approaches described in this Discussion Paper.

Before answering the question of what items could be included in OCI, it is necessary to address the question of what is the purpose of OCI. As noted in our response to Question 4, there may be circumstances where, after due consideration, it is determined that different measurement methods should be used for balance sheet purposes vs profit or loss purposes, for conceptual or practical reasons. In that respect, we envisage that OCI could play one of two roles.

It could serve a conceptual role by presenting certain changes in assets and liabilities that do not qualify as profit or loss as defined by reference to the business model applied to a specific period. Under this approach, OCI could encompass changes in assets and liabilities that have a very long horizon of realisation and recycling may not be relevant. However, a solution would remain to be identified for items such as cash flow hedge items and own credit risk (i.e., essential mismatched measurement items), that require temporary storage.

Alternatively, it could serve the purely practical role of keeping profit or loss "clean" by serving as the repository for changes in assets and liabilities that are determined as not belonging in profit or loss of the period. Under this role, a broad approach may be acceptable and would require recycling.

In any case, a definition of 'performance' is the key prerequisite for assessing whether any of the approaches on recycling (or any potential other approaches) provides the most relevant information for users.

As a provisional conclusion, based on current Standards, FEE would exclude approach 1 and express a preference for approach 2B.

Section 9 – Other issues

Question 22

Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.
Do you agree with this approach? Please explain your reasons.
If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

No. We do not agree with the approach proposed. FEE concurs with the EFRAG, and supports a revision to the qualitative characteristics of stewardship, reliability and prudence in the already approved chapters of the CF. We believe that the next ED should cover the entire CF (including concepts addressed in Chapters 1 and 3), so that the overall coherence of the complete document can be assessed.

Stewardship: FEE believes that the concept of stewardship is adequately described in Chapter 1 of the CF. However, we regret that the IASB did not decide to elevate this concept at the level of an objective (besides “decisions about providing resources to the entity” in OB2). We acknowledge that it is difficult to translate in other languages, but note that this argument could be used in many other cases. Nonetheless, we propose that “accountability” could be an acceptable alternative.

Reliability: The IASB should seriously consider reintroducing reliability. The principle was very well understood and the arguments for replacing it by “faithful representation” are not fully convincing.

Prudence: Paragraph 9.20 of the DP states that “a preparer should exercise caution when making estimates and judgments under conditions of uncertainty”. The fact that it is already reflected in a number of Standards (day one profits, contingent liabilities, impairments etc.) shows that the issue has a transversal character which justifies proper explanation in the CF.

There could be different understandings of what prudence means. FEE believes that the IASB should define clearly prudence, explain how it differs from neutrality and from regulatory prudential concepts. The CF should explain how this concept is relevant to standard setters in developing standards. In particular, the role of prudence (and its interaction with relevance) in establishing recognition criteria and determining the appropriate measurement basis for assets and liabilities needs to be considered. However, we have concerns with extending prudence to the *application* of the measurement basis. Accordingly, the IASB should be careful not to explain prudence in terms that may be read to infer overvaluation of liabilities and undervaluation of assets.

Question 23

The business model concept is discussed in paragraphs 9.23–9.34. This DP 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?

FEE believes that the business model is an important concept to consider in determining what constitutes decision-useful information. Therefore, FEE supports further exploring the business model as part of the CF. As indicated in our response to other Questions, we believe that the business model is relevant in areas such as identifying the most relevant subsequent measurement basis, defining performance and establishing whether changes in assets and liabilities should be recognised in profit or loss or in OCI.

Giving proper recognition to the business model as part of standard setting would help ensure that financial statements serve as a communication tool between management and users of financial statements with respect to stewardship.

Accordingly, we believe that it is important that further work be performed on that concept. Setting out a concept of business model as part of the CF could help to clarify the differences between both the business model and the management intent. It would also assist in ensuring that when a reference is made to the business model at standard level, its meaning is clear and consistent.

Question 24

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 believe that the issue of the unit of accounting is a cross cutting issue that deserves attention at the CF. As noted in response to other Questions, the unit of account is an important consideration in establishing principles on recognition, derecognition and measurement.

Hence, while FEE agrees with the EFRAG's comments that the IASB should commit itself to consider the unit of account when developing new or revised Standards or guidance, we believe that this issue cannot be addressed solely at the standard level.

Question 25

Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).
Are there any other situations where the going concern assumption might be relevant?

No, we did not identify any other situation where the going concern might be relevant.

However, FEE believes that additional guidance on financial reporting in situations in which an entity is no longer a going concern and will probably not continue in operation in the foreseeable future would be useful at standard level. In developing such guidance, the IASB should keep in mind that it would be a problem if the auditor had to deliver an opinion on the going concern when management is not providing an explicit statement on the issue in the Financial Statements.

Question 26

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.
Do you agree? Why or why not? Please explain your reasons.

FEE notes that the IASB proposes to defer its work on capital maintenance until a forthcoming review of IAS 29. We suggest that the IASB may find it helpful to work in the shorter term on defining capital and better explaining the nature of the capital IFRS is seeking to maintain, which may help with determining appropriate measurement basis and explaining the role of prudence in financial reporting.