



EFRAG comment letter IASB's ED conceptual framework
European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on the EFRAG comment letter IASB's ED Conceptual Framework, using the same order that the questions are in the comment letter.

Question to constituents

Throughout the ED, 'users' refers to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need.

Do you agree with focusing on this group of users? If not please indicate how it should be either narrowed down or widened, and why.

ICAC is on the view that the group of users of financial statement called by ED primary users, that is existing and potential investors, lenders and other creditors, need the information to make decisions about their investment. Because of that, the information that they need is such as they could make assessment about the return of their investment. That implies useful information to assess both future cash flows and stewardship.

This point of view is not contrary to define another group of users with another type of needs, but if so, we consider it is important to define also the reasons to make the difference between different type of users, different needs and different type of useful information.

Question to constituents

EFRAG's preliminary answer to Question 1(d) includes arguments for using the term 'reliability' instead of 'faithful representation'. EFRAG would, however,



wish to assess whether constituents have become used to the term ‘faithful representation’ introduced in 2010, have a good understanding of it, and therefore would prefer not to revert to ‘reliability’. What is your assessment of this?

ICAC is aware of the importance of uncertainty measurement and the role that this concept must play in financial information. We consider that the label of reliability is better in order to make the needed trade off between relevance and reliability and, this trade off in the ED is lost because of the transformation of the label reliability as faithful representation and put the measurement uncertainty as an element of relevance.

In response of EFRAG question, ICAC prefers to revert to reliability.

Question to constituents

Do you agree that there is no urgent need to justify the choice of control as the basis for consolidation from a conceptual perspective? If no, please explain what EFRAG should recommend to the IASB.

ICAC is on the view that there is not urgent need to justify the choice of control as the basis for consolidation from a conceptual perspective.

Question to constituents

Do you agree with the view that the asset liability approach leads to more robust and consistent financial reporting than a pure matching approach? (Why/why not?)

ICAC is not sure about the link made in the comment letter between the removal of the description of revenue in the ED and the matching approach. We believe that further explanation would be useful.

Question to constituents

The ED includes different factors to consider when selecting a measurement basis. For example, the ED mentions in paragraph 6.54 that to produce relevant information it is important to consider both how an asset or liability contributes to future cash flows and the characteristics of the asset or the liability.



Sometimes these factors could conflict and different conclusions could thus be reached by giving priority to some factors rather than to others. In the paper Profit or loss versus OCI prepared for the July 2015 ASAF meeting, EFRAG examines an approach where the business model will be used when selecting a measurement basis and thus when selecting among different factors.

What aspects do you think should help the IASB select a measurement basis when the factors listed in the ED would conflict? Do you think that some factors are more important than others?

The business model should play an important role in the financial statements. In our opinion, it is a very important factor as it determines how the entity uses the assets to generate cash flow, which ultimately is the purpose of business. Thus, the business model meets the circumstances surrounding cash flow generation as the EFRAG document says. One of those circumstance is what the bulletin calls “critical event to the generating activities” and it is linked to market conditions at that critical event occurs.

Therefore, the same business model can have different characteristics depending on the market to which it is addressed or where this critical event occurs, what is clear is that the information provided by the market is a very important fact in relation to appropriated measurement bases. It is the idea that the document transmits when the transformation model is described.

In our opinion, the business model is important when selecting the measurement bases and analyzing the relevance of the information that a measurement bases offers, but it should be done a trade off between this measurement bases and the reliability of the information that the specific market provides and this could lead to diferent measurement bases.

Regarding the question about the selection process measurement bases, we agree with the idea that first it is designated the measurement bases relating to the profit and loss, to the extent that the first thing to consider is the use that is given to the item discussed, that is, how the item contributes to generate cash flows and, in our opinion, that question is the same as how it contributes to the generation of income and how changes in the value of that element are generated.

The existence of different measurement bases in the case of statement of financial position and profit and loss is a very controversial issue. If the change in value of the asset or liability is not included in the profit and loss, the result is no longer a univocal concept and therefore the interpretation of the profit or loss for the period also becomes complex. However, it is also true that reporting income in OCI is a well-established



practice and therefore the review of the conceptual framework should take in account this fact.

Under these considerations, we understand that there may be different measurement bases for the same element in statement financial position and profit and loss, in order to present different type of information; solvency, liquidity and changes in value.

Question to constituents

Do you support the use of different measurement bases for the statement of financial position and the statement of profit or loss? If so, when do you think it would be appropriate?

The answer is above.

Question to constituents

The alternative view of Stephen Cooper and Patrick Finnegan presented in paragraphs AV2 – AV7 of the Basis for Conclusions accompanying the ED, notes that identifying the statement of profit or loss as the primary source of information about financial performance, but without actually defining financial performance or specifying the characteristics of income and expenses that require their presentation in OCI, will leave the IASB in effectively the same position that it is now.

In addition, the approach to recycling provides little guidance, because there are no specific reasons presented that would rebut the presumption that recycling takes place (other than the reference to relevance).

Mr Cooper and Mr Finnegan think that the conceptual foundation for performance reporting should be based on principles of separate presentation of income and expenses with different characteristics, including, for example, different degrees of persistence and different predictive values, and principles of disaggregation or splitting of items of income and expenses to highlight components that have different characteristics.

In general, such disaggregation should be done within profit or loss, either on the face of the statement or in the notes. However, Mr Cooper and Mr Finnegan acknowledge that there may be some circumstances in which disaggregation may be best done by recognising some components of income and expenses in OCI and



not in profit or loss. Nevertheless, they believe that the Conceptual Framework should restrict the use of this approach (unless the IASB chooses to depart from the Conceptual Framework) more than the Exposure Draft proposes.

What is your opinion about this alternative view?

We agree with the idea that the statement of profit or loss must be the primary source of information about financial performance, but in order to achieve this purpose we consider that it is important to define financial performance and the characteristics of income and expenses that require their presentation in OCI. If this is not done, it will leave the IASB in effectively the same position that it is now.

We also see that the approach to recycle provides little guidance, because there are no specific reasons presented that would rebut the presumption that recycling takes place (other than the reference to relevance).

Question to constituents

The alternative view of Stephen Cooper and Patrick Finnegan presented in paragraphs AV2 – AV7 of the Basis for Conclusions accompanying the ED, notes that amounts could be recognised outside profit or loss, but only if doing so enhances the relevance of the information in the statement of profit or loss in that reporting period. Moreover, they think that this must also hold true for all other periods that may be affected, including periods covered by any potential recycling, and also in aggregate over several periods, including the life of the transaction concerned.

To achieve this, the basis of disaggregation should result in a net zero accumulated amount in OCI over the life of a transaction or in aggregate over the life of economically linked transactions. If the cumulative amount in OCI is not zero, then the relevance of the information in the statement of profit or loss is reduced on a cumulative basis, because some items of income and expenses would be entirely omitted from the statement of profit or loss and so the depiction of financial performance in that statement would not be complete. They also believe that the principle they outline would obviate the need to consider explicit reclassification of OCI items (because the disaggregation should naturally result in zero cumulative OCI over the life of the relevant transactions) and would therefore remove a source of complexity and confusion for users of financial statements.



Mr Cooper and Mr Finnegan consider that this principle would, in effect, restrict the use of OCI to a limited number of cases in which either (1) a different measurement basis (which, as noted in paragraph BC7.49, should be a meaningful measure and not just an accumulation of amounts recognised in the statement of profit or loss) is judged appropriate for measuring income and expenses in profit or loss, compared with that best suited to the measurement of the asset or the liability in the statement of financial position; or (2) there is a mismatch in the recognition basis for different but economically related transactions.

The Discussion Paper A Review of the Conceptual Framework for Financial Reporting presented three concepts to be used when considering whether an item could be reported in OCI. The three items were ‘bridging items’; ‘mismatched remeasurements’ and ‘transitory remeasurements’.

Mr. Cooper and Mr Finnegan thus supports two of the three situations for use of OCI envisaged in the Discussion Paper. Mr Cooper and Mr Finnegan believe that further work to develop a conceptual basis for OCI should have built on these.

What is your opinion about this alternative view?

We think the Conceptual Framework must address this issue with a more robust concept, maybe in the line this alternative view present. We think that the Conceptual Framework should defined the basis of what current practice is and provides enough guidance to deal with some issues in the future.

Do you think the discussion about the three concepts from the Discussion Paper (‘bridging items’; ‘mismatched remeasurements’ and ‘transitory remeasurements’) should be included in the Conceptual Framework?

We think that, at least, some of the approaches in the DP should be presented in the Conceptual Framework. There is a very different view between the DP with 2 approaches and the ED with a very lack of guidance in this issue, in our opinion.

Question to constituents

The IASB has carried forward the material in the chapter on capital maintenance unchanged from the existing Conceptual Framework, except for a limited number of editorial changes. The Discussion Paper A Review of the Conceptual



Framework for Financial Reporting preceding the ED noted that the IASB does not plan to consider the chapter on capital maintenance until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

EFRAG notes that an argument for removing the chapter until the issue can be further considered could be that the chapter is not well linked with other parts of the proposed new Conceptual Framework (e.g. it is not linked with the objective of general purpose financial reporting including the role of stewardship).

Do you think the existing chapter on capital maintenance should be kept in the Conceptual Framework?

ICAC considers the capital maintenance as an appropriated issue of the Conceptual Framework, so we think that it should be kept in Conceptual Framework.

Question to constituents

Do you agree with the status of the Conceptual Framework (see paragraphs 178 - 179 above) and that the review should not automatically result in any changes to Standards?

ICAC agrees with ED in this issue.

Question to constituents

Do you agree that:

- **The ED provides sufficient guidance on how to reflect long-term investment business models;**
- **The ED contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting, to address appropriately the needs of long-term investors?**

ICAC is on the view that, taking as starting point the group of users that ED includes, there is no need to make difference between the need of information for different users may have depending on the temporal horizon of their investment.



We do not see clearly what kind of different information long term investors could have in front of the rest of users and if those differences could be enough to support a different treatment in the Conceptual Framework as EFRAG seems to justify.

Question to constituents

Are there any of the discussions, ideas and reflections included in the Discussion Paper A Review of the Conceptual Framework for Financial Reporting (issued by the IASB in July 2013), that are not reflected in the ED, you think should be included in the Conceptual Framework?

ICAC thinks the ED includes all the areas DP included.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Madrid, 20th November 2015

Ana M^a Martínez-Pina
Chairman of ICAC