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Exposure Draft “Conceptual Framework for Financial Reporting”

Dear Mr Hoogervorst

On behalf of the German Insurance Association (GDV) we welcome the opportunity to comment on the Exposure Draft “Conceptual Framework for Financial Reporting” (ED/2015/3), as published by IASB on 28 May 2015 for public consultation. We fully support the considerable efforts undertaken by IASB to revise and amend the existing Conceptual Framework for IFRSs to make it clearer and more complete.

We believe that this particular consultation is of essential importance as the updated Conceptual Framework will provide a point of reference for the future IASB’s standard setting activities. Nevertheless, we also appreciate that IASB has acknowledged in the Exposure Draft that the Conceptual Framework also plays an important role for preparers of IFRS financial statements when developing their entity-specific accounting policies.

We believe that IASB is able and should finalise this important project as scheduled. Nevertheless, we also continue to argue that IASB should not compromise its quality. Especially, a high quality Conceptual Framework might significantly contribute to globally consistent implementation of principle-based IFRSs. While the future Conceptual Framework is not intended to override specific Standards, it will surely influence the future thinking of IASB and the IFRS Interpretations Committee.

Hence, we encourage IASB that the following issues are thoroughly considered during the upcoming Board deliberations before finalising the project. These relevant aspects should be mentioned in the final Conceptual Framework as important to be explicitly considered during any future IASB’s standard setting process:

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- the role of business models' consideration in standard setting;
- the critical importance of the right unit of account to be applied;
- the role of the OCI presentation and the importance of recycling;
- the relevance of long-term perspective to be acknowledged;
- the need for effective disclosure requirements to be based on clear objectives.

For example, the business model consideration should help IASB to determine if accounting principles for particular items can be developed in isolation or should better be considered together with other related items (e.g. insurance contracts and financial instruments). Similarly, the determination of the 'right' unit of account is essential and will decide whether the particular Standard will be operational and result in providing meaningful information. And the separate work on the disclosure framework should help IASB to define principles how to determine meaningful disclosures when developing or revising particular Standards.

Finally, we would like to emphasise a specific issue which refers to the acceptancy of the IASB's activities at large. Our strong concerns relate to the subsequent treatment of potential inconsistencies between the future Conceptual Framework and the particular Standards. Even acknowledging that any amendment to specific Standards would require proceeding with the normal due process of IASB, a constant flow of changes to IFRS would not be supported by us. Although we fully understand the relevance of consistency in IFRS from the IASB perspective, we encourage IASB to consider a **need for an extended period of calm** (three to five years) to allow all constituents to fully understand the implications of the new Conceptual Framework. In addition, if existing Standards work well in practice, there is no need to revise it. We would appreciate an explicit commitment of IASB in this respect when issuing the revised Conceptual Framework.

For our detailed comments to the specific questions in the ED/2015/3 we kindly refer to the annex to this letter. If you like to discuss our response in further detail, please do not hesitate to contact us.

With best regards



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**Annex: The GDV's comments to the IASB's Exposure Draft
ED/2015/3 "Conceptual Framework for Financial Reporting"**

Question 1 – Proposed changes to Chapters 1 and 2

Do you support the proposals:

- (a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;
- (b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;
- (c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;
- (d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and
- (e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

In general, we are supportive of the suggested changes.

We welcome the re-introduction of the explicit reference to the role of financial reporting with regard to the management's stewardship. In particular, we agree that information about management's stewardship is part of the information to be provided to investors and other users of financial statements (BC1.10 (a)). It is a matter of fact that reporting entities are not acting on its own terms and that audited financial statements are considered as being suitable to provide the proper basis for assessment of management performance. However, we do not share the view that introducing an explicit additional primary objective of financial reporting would be confusing (BC1.10 (b)). It would rather reflect the reality.

We appreciate that IASB recognised the relevance of an explicit reference to the prudence principle in the Conceptual Framework (paragraph 2.18). However, we do believe that the sole reference to neutrality does not fully reflect the rationale behind the prudence principle as commonly understood. It seems to be rather confusing than helpful. We recommend incorporating certain elements of the discussion regarding the existence of

asymmetric prudence in specific IFRSs into the Conceptual Framework. Both dimensions of the prudence principle are relevant and existent, as they target different ‘users’ of the Conceptual Framework. While the cautious prudence (BC2.9) is aimed to support the preparers of the financial statements, the asymmetric prudence (BC2.11) is intended to support IASB in the standard setting process.

For example, with regard to the accounting treatment of executory contracts (paragraph 4.40) it is a common practice, and a practice which is recognised and not questioned by IASB, that tests are necessary to verify whether the contract is onerous at the reporting date or not (paragraph 4.41). In general, beneficial contracts used to be not recognised in the financial statements, subject to explicitly predefined exemptions in particular Standards. However, only IASB might decide under which particular circumstances such contracts are to be recognized in financial statements. The outcome is the existing asymmetric prudence. It would be obviously highly problematic if the reporting entities would be entitled to make such decisions. On the contrary, the cautious prudence can be exercised at the level of reporting entities only, depending on the entity-specific facts and circumstances. We advise IASB to target these two dimensions of prudence explicitly in the Conceptual Framework to avoid confusion as the Conceptual Framework is intended to support IASB in standard setting process and help prepares when developing entity-specific accounting policies or applying principle-based IFRSs.

We continue to believe that also “reliability” should be re-introduced as a quantitative characteristic of useful financial information. The term “faithful representation” is too vague to provide sufficient guidance for IASB’s standard setting decisions in specific circumstances. While fully acknowledging that in paragraphs 2.12 und 2.13 the concept of measurement uncertainty is described, the principle of reliability should be explicitly re-introduced as well as the common origin for all these considerations. We support the related views of the European Financial Reporting Advisory Group (EFRAG) in this regard and refer to its analysis.

We support the proposed explicit reference to the essentially important substance of the form principle in the revised Conceptual Framework. Nevertheless, we like to note that the legal framework often results in direct economic consequences. Hence, the legal form is an essential part of the economic environment in which reporting entities are acting.

Finally, we agree with the conclusions drawn on the issue of understandability (BC2.26), complexity (BC2.27) and materiality (BC2.31).

Question 2 – Description and boundary of a reporting entity

Do you agree with:

- (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and
- (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

We have no critical comments regarding the proposals as IASB has no authority to determine who must or should prepare separate or consolidated financial statements. Nevertheless, we explicitly appreciate that IASB recognises in the paragraph 3.20 the important role of separate financial statements ('unconsolidated financial statements'). Especially, they might play a decisive role as a reliable basis for assessment of the potential future profit distribution to shareholders via dividend payments. However, we do not disagree that consolidated financial statements, based on the concept of (both direct and indirect) control (paragraph 3.21), provide useful information to users as they reflect the matter of fact that the group of reporting entities behind it create an economic unity.

Question 3 – Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

- (a) an asset, and the related definition of an economic resource;
- (b) a liability;
- (c) equity;
- (d) income; and
- (e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

The proposed definitions seem to be more concise and focused. And we explicitly do not disagree with the IASB's approach of defining income and expenses in terms of changes in assets and liabilities (acknowledging the rationale as provided in BC4.2-BC4.3).

However, we do not agree with the suggested definition of an asset for one particular reason. We believe that the proposed definition comingles two conceptual dimensions of accounting and economic reality which are

to be explicitly separated: the asset definition and the question of ownership.

The question of the ownership, i.e. the question, whether the particular reporting entity controls the particular asset, should not form part of the definition of an asset. It should be rather considered as a recognition / derecognition criterion. Therefore, we recommend the following adjustment to the proposed definition of an asset in the paragraph 4.5:

“An asset is a present economic resource ~~controlled by the entity~~ as a result of past events.”

Fully acknowledging the IASB’s rationale provided in BC4.44 (b) regarding the practical relevance, we continue to believe that the Conceptual Framework should be conceptually proper. It would also better fit to the conceptually right statement in paragraph 4.17 that “*control links the economic resource to the entity*”. In addition, to be controlled a resource would need to be ‘identifiable’ or ‘separable’. However, IASB rejected this aspect to be part of the asset definition (BC4.37).

Furthermore, we believe that paragraph 4.6 defining the “economic resource” as “a right” is leading to a radical conceptual change to the current accounting approach. In general, the suggestion that for example not physical objects but instead the related rights are recognised is not convincing. It might be seen as not fully in line with the substance over form principle (paragraph 2.14). We also believe that accounting should reflect the economic reality, what means that tangible and intangible items are assets and not the package of the related rights and obligations. The existence of legal right is (solely) a basis for recognition in the balance sheet of a particular asset’s owner. Based on this rationale, we acknowledge the explicit IASB’s recognition in paragraph 4.12 that “*describing the set of rights as a physical object will often provide the most concise, clear and understandable information*”. This statement seems to implicitly incorporate the essential consideration of the appropriate unit of account approach in this regard. Nevertheless, we are concerned about potential unintended consequences of the suggested conceptual change and the intended focus on rights. We are concerned especially with regard to the future Board’s considerations regarding the unit of account and a potentially unnecessary high level of granularity for accounting purposes only in the future.

Finally, we suggest to delate the section “Other changes in resources and claims” in the table in paragraph 4.4. This section does not provide any added value to those presented above.

Question 4 – Present obligation

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

We have no specific critical comments. And we support the IASB's suggestion to retain the reference to past events in the definition of a liability (paragraphs 4.36-4.39, BC4.64). We also agree with the explicit clarification in the paragraph 4.26. It makes clear that there is no requirement / no intention in the paragraph 4.25 for a corresponding accounting.

Question 5 – Other guidance on the elements

Do you have any comments on the proposed guidance?

Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Fully acknowledging that the practical entity-specific adoption of the concepts/definitions of the Conceptual Framework will require judgment, we do not believe that further additional guidance is necessary, i.e. the guidance proposed in the Exposure Draft seems to be sufficient. Nevertheless, we strongly believe that the most essential issue for IASB will be to ensure that the 'right' unit of account (paragraphs 4.57-4.63) is determined in the particular standard setting activities. Otherwise the Standard's provisions might lack operational feasibility and result in not meaningful information.

In particular, we are highly concerned about the intended relevance of the last sentence in paragraph 4.58 which might be of critical importance in the future. We suggest to delate this sentence. Especially, **we would disagree if the initially right Board's decision regarding the appropriate unit of accounting should be effectively overwritten by some presentation or disclosure requirements only**. This needs to be avoided. For example, if a portfolio is identified as a right unit of account for insurance contracts project, this decision should be consistently applicable also for presentation and disclosure purposes, hence not reverted without critical reasons. Furthermore, we agree that the selecting a unit of account should be the Standards-level decision.

Finally, we like to note that the IASB's approach how to justify why executory contracts are generally not recognised in the financial statements (BC4.92) is only one of the possible approaches. In our view, the IASB has not explored sufficiently the role of the realisation and prudence principle in this regard. Thus, receivables / revenues are commonly not recognised until the underlying obligations are fulfilled. And the onerous ex-

executory contracts are considered on the offset basis because of the asymmetric application of the prudence principle; it does not change the character of the concerned contracts to remain being executory. The IASB's offsetting approach might lead to similar conclusions but is incompletely reflecting the current accounting practice/theory. The existing treatment for derivatives and financial instruments accounting in IAS 39 / IFRS 9 is an exception only. Therefore, the Conceptual Framework should include the simple accounting principle that executory contracts are not recognised unless onerous (in line with the prudence and realisation principle) or decided differently on the level of specific Standards.

Question 6 – Recognition criteria

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We believe that the related descriptions are not well structured and vague. We recommend defining an overarching principle for recognition for assets and liabilities in first place and then to refer to possible exceptions from this principle and related consequences, accompanied with appropriate references to specific and narrowly defined facts and circumstances of such exceptions.

In particular, we view as a matter of principle that the revised Conceptual Framework should clarify that all assets controlled by the entity and all liabilities resulting in a present obligation for the reporting entity as a result of past event are to be recognised in the financial statement (completeness principle). Only, in the second step exceptions to this principle should be explicitly defined. The case of executory contracts is such exception to the general principle of completeness. Further exceptions should be defined in the relevant specific Standards, in which the probability criterion might still play an essential role.

We support that the Exposure Draft provides a reminder what should happen if a particular item is not recognised. In particular, paragraph 5.12 clarifies that an expense is recognised if no asset is recognised when expenditure is incurred. We believe this clarification indicates that simple neglecting certain items from financial statements is not intended for any reason. We note the cost consideration in paragraph 5.24, we miss however the consideration of the role of the materiality in this regard.

Finally, we refer to our firm view, as expressed above in the response to Question 3 that "control" is a precondition for recognition and not an element of the asset definition.

Question 7 – Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

As a matter of principle, we think that a symmetry between the criteria for recognition and derecognition is the most understandable and desirable objective at the level of the Conceptual Framework. Therefore, the control approach might be the preferable one from the conceptual point of view.

Furthermore, we do not follow fully rationale for the explanations in paragraph 5.32. In particular, the paragraph 5.32 (c) refers to the case, in which the entity has no longer ‘any rights or obligations’ under the transferred component. If this is the case, than derecognition seems to be the right answer. We encourage IASB to provide a suitable example to indicate a suitable case for the intended treatment. We believe that potentially misleading presentation should be best avoided and not tried to be healed by additional disclosures. We agree that the derecognition issue is also closely related to the unit of account consideration, the related measurement provisions, and therefore any detailed provisions can only be discussed at the Standards-level (BC5.58).

Question 8 – Measurement bases

Has the IASB:

- (a) correctly identified the measurement bases that should be described in the *Conceptual Framework*? If not, which measurement bases would you include and why?
- (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

The GDV is supportive of the existing mix measurement approach in the current IFRSs and agrees that “different information, derived from different measurement bases, may be relevant to users of financial statements in different circumstances” (BC6.13). A single measurement basis for all assets and liabilities would not provide the most relevant information and would not be workable in practice. It would not pass the cost-benefit test.

Furthermore, we believe that the suggested two main categories (historical cost and current value) are the appropriate approach for the purpose of the revised Conceptual Framework. We would however strongly rec-

ommend using the term “amortised cost” or simply “cost” instead of “historical cost” as it would better reflect the nature of the different cost-based measurement approaches. The reference to “historical cost” suggests implicitly that cost-based measurement is not subsequently updated and hence loses (any) relevance at the subsequent reporting dates. This is obviously not the case, as also cost-based measurement approaches are (at least partially) updated and take into account for example impairments.

Regarding the proposed subcategories of the current value, i.e. fair value, value in use and fulfilment value, we believe that the Exposure Draft provides a suitable level of detail and a balanced assessment of the application of cost-based measurement versus current value measurement. In particular, we appreciate that IASB seems to acknowledge at the conceptual level the importance of the amortised cost and fulfilment measurement, instead of the (exit) market oriented fair value measurement only.

Question 9 – Factors to consider when selecting a measurement basis

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

In general, we believe that IASB has identified a number of important factors to consider when selecting a measurement basis for particular items (i.e. an asset or a liability) when developing specific Standards. We also fully agree with the conclusion that initial measurement and subsequent measurement cannot be considered separately (paragraph 6.52). In our firm view, they need to be consistent, as assumed in paragraph 6.67.

Furthermore, we also think that measurement basis has to be selected not only in relation to the nature of business activities conducted by the entity (paragraph 6.54 (a)). It should be also based on the characteristics of the business model of the entity. Especially, it would not be appropriate to select the measurement basis in isolation for assets and liabilities if the underlying business model is causing an inherent economic linkage between them. Otherwise the information provided will not be useful to investors or other users of financial statements (paragraph 6.49). If assets and liabilities interact with each other economically (e.g. insurance contracts and financial assets and other assets backing insurance contracts), accounting should take it into account and enable entities to reflect this interplay appropriately. We appreciate the related consideration in the paragraph 6.58 which should be part of the revised Conceptual Framework.

Finally, we support the IASB’s recognition of the importance of the cost constraints to be considered by IASB when setting measurement requirements (paragraph 6.50).

Question 10 – More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

Yes, we agree that in some cases different measurement approaches for balance sheet and income statement might be necessary to appropriately depict the underlying economics of particular business models. We also agree that in such circumstances the use of the other comprehensive income presentation (paragraph 6.77 (b)) might be of essential importance to ensure transparent information for investors and other users of financial statements. Therefore, we support the inclusion of the related paragraphs into the future Conceptual Framework.

Especially, in the case of the long-term oriented business models a careful consideration of the relevance of the transparent separate presentation of short-term effects of market variables has to take place. In other words: the application of two different measurement approaches for balance sheet and for income statement helps to ensure that the underlying financial performance of the reporting entity is appropriately depicted and not overshadowed by irrelevant market noise effects in the income statement.

Question 11 – Objective and scope of financial statements and communication

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We welcome the clarification that forward-looking information is generally provided outside the financial statements, for example, in the management commentary (paragraphs 7.4 and 7.5). Therefore, we object to the concept that primary financial statements should provide also certain information about transactions and events that have occurred after the end of the reporting period (paragraph 7.6). It seems to be necessary to properly clarify the boundary between financial statements and other elements of financial reports (e.g. management commentary), as targeted in BC7.6.

We continue to encourage IASB to further work on the Disclosure Initiative and the principle-based Disclosure Framework. We believe that defining disclosure principles, and determining what the respective disclosure objectives for specific Standards are, would significantly contribute to increased effectivity of disclosures provided by reporting entities.

Nevertheless, we urge IASB to already reconsider problematic disclosure requirements in currently ongoing projects before they get effective and burdensome for reporting entities. A suitable example here is the recently adopted proposal to require the confidence level reconciliation with regard to risk adjustment determination in the insurance contracts project (IASB, Agenda Paper 2D, October 2015: Presentation and Disclosures for insurance contracts) while the entire insurance and actuarial community at large is concerned with regard to the uselessness of this requirement.

In addition, IASB should avoid introducing further burdensome disclosure requirements as part of the Disclosure Initiative's activities to not undermine the acceptancy of the project at large. For the unfortunate example here we refer to the GDV comment letter of 13 March 2015 "ED/2014/6: Disclosure Initiative, Proposed amendments to IAS 7".

Question 12 – Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

We agree that the statement of profit or loss is identified in the revised Conceptual Framework as the primary source of information about entity's financial performance for the reporting period (paragraph 7.21). We also strongly support the recommendation that a total or subtotal for profit or loss should be mandatorily provided (paragraph 7.19, paragraph 7.22).

However, we also believe that further conceptual work is necessary to identify the underlying concept(s) for the profit or loss presentation (against BC7.41). The information provided is only relevant and meaningful if it is based on a commonly understood concept and depicting the underlying economic reality of reporting entities. Therefore, not only but especially from the perspective of the long-term oriented business model of the insurance industry, it is essential to ensure that potentially highly volatile short-term effects of subsequent re-measurements are properly reflected in performance reporting. The use of the other comprehensive income presentation is suitable to serve this purpose.

In addition, we suggest that the Conceptual Framework should define what meaning the first 'revenue' line of profit or loss statement should have. Therefore, we do not agree with the suggestion to eliminate the no-

tion of 'gains' or 'losses'. Also in the current projects IASB should carefully consider how to safeguard that information provided in the first line are commonly well understood by investors and other users of financial statements.

For example, we believe that creating and requiring artificial numbers like 'insurance contracts revenue' and prohibiting the presentation of premiums received on the face of the profit or loss statement in the insurance contracts project (IFRS 4 Phase II) will not contribute to increased understandability of financial statements of insurers. It is also problematic from the perspective of reporting entities and with regard to the cost/benefits consideration.

Nevertheless, we do believe that such essential decisions should be made at the Standards-level only when dealing with specific transactions or items, while considering the conceptual rationale of the Conceptual Framework.

Question 13 – Reporting items of income or expenses in other comprehensive income

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

The Exposure Draft suggests a rebuttable presumption that all income and expenses will be included in the profit or loss statement (paragraph 7.23). This presumption should be rebutted in some certain circumstances (paragraph 7.24). The Exposure Draft provides further an example that the presentation in other comprehensive income (OCI) would be used if IASB decides that a dual measurement approach is appropriate. In such cases the current measurement would be used in the balance sheet and related income and expenses at cost-based basis in the income statement. The cumulative difference would be presented than in the OCI (paragraph 7.25, BC7.49).

In general, we believe that the Exposure Draft does not provide any conceptual basis for the use of the OCI presentation. In addition, the proposed description might create an impression that the OCI presentation is / should be an absolute rare exception. We would be very concerned about such outcome. We have the strong view that the OCI presentation is a proper and valid accounting approach, not only for simple debt instruments. In particular, the OCI presentation, as an accounting policy choice,

is supported by the insurance industry at large for the currently ongoing insurance contracts project (IFRS 4 Phase II). It is also a critically essential part of the current IFRS 9 Financial Instruments. Therefore, the existence of OCI presentation must not be disqualified in an inappropriate and biased way at the level of the revised Conceptual Framework which will form a fundament for future IASB's standard setting activities.

Nevertheless, we agree with the suggestion that the OCI presentation is of importance in cases of current measurement of assets and liabilities (paragraph 7.24 (a)) and should be used to increase the relevance of the information provided in the profit or loss statement (paragraph 7.24 (b)). Therefore, we recommend the following adjustment to the statement in the paragraph 7.24:

“The presumption that all income and all expenses will be included in the statement of profit or loss can ~~only~~ be rebutted especially if: (...)”

From the conceptual point of view we would suggest to add an additional example for the use of the OCI presentation to paragraph 7.24, which would refer to the realisation principle, in line with the use of the OCI presentation for example in IAS 16 / IAS 38.

“(c) _____ they are representing unrealised income or expenses.”

Furthermore, we share the view that the conceptual consistency between initial and subsequent measurement of assets and liabilities is important and that the *“initial measurement and subsequent measurement cannot be considered separately”* (paragraph 6.52). Therefore, we believe that also the OCI presentation should not be constrained only to the area of the subsequent measurement. We are not aware of any valid reasons to not adopt this thinking and the related underlying rationale consistently to the presentation approach in IFRS. Taking this view into account we believe that there might be cases in which the OCI presentation for effects of initial measurement might be useful. Especially, if the use of the OCI presentation would be based on the realisation principle, certain day one gains or losses would be better reflected in the OCI instead of immediate recognition in profit or loss or as a specific deferral item on asset or liability side of the balance sheet.

Finally, we fully support the explicit consideration in paragraph 6.58 dealing with ‘accounting mismatches’, when different measurement bases are to be applied for related assets and liabilities. We urge the IASB to include this important consideration into the final Conceptual Framework and to amend this thinking with an explicit reference to the need for consistency in presentation approaches as well. The recent controversies about the

need for the fair value through other comprehensive income (FVOCI) category in IFRS 9 and about the critical role which the OCI presentation plays in the insurance contracts project demonstrated that this aspect should not be ignored in the Conceptual Framework. Especially, the controversy arose as there is no clarity if the use of the OCI is a measurement or / and presentation approach in IFRSs.

Question 14 – Recycling

Do you agree that the *Conceptual Framework* should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

The Exposure Draft suggests that there should be a rebuttable presumption that recycling has to occur (paragraph 7.26). We believe that this clarification is essential. We have however the view that recycling should be the sole principle for the Conceptual Framework. Any rare exceptions should be than decided and determined at the Standards-level only.

Also in this context we refer to the important conclusion in the paragraph 6.58 and the rightly recognised need for the IASB to ensure that accounting inconsistencies and artificial volatility in profit or loss are best avoided. This thinking approach should similarly apply to recycling decisions.

For example, it is truly a concerning issue when IFRS 9 Financial Instruments prohibits recycling for equities measured at fair value through other comprehensive income (FVOCI equities). It is misleading and confusing for investors and other users of financial statements when realised gains or losses on FVOCI equities are not reported in profit or loss for the period, in which the realisation occurred. In addition, this concern does not only refer to insurers issuing insurance contracts with participation features. In general, restrictions on recycling might significantly influence investment decisions of all insurers and are suitable to disadvantage long-term equity financing strategies. As a matter of fact, we believe that the restriction on recycling for FVOCI equities reflects an implicit IASB's preference for full fair value accounting of equities and we firmly disagree with that outcome. Therefore, we continue to have the strong view that any restrictions on recycling should be very carefully considered when developing or revising specific Standards. Finally, the development of the balance sheet item "accumulated OCI" (i.e. outstanding gains or losses) is less understandable when recycling is not allowed to occur.

Question 15 – Effects of the proposed changes to the Conceptual Framework

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

We support the explicit clarification that the Conceptual Framework is not a Standard and that it does not override any of the provisions in particular Standards (paragraph IN2).

Furthermore, we believe that the finalisation of the revised Conceptual Framework should not lead to continuous flow of changes to specific Standards only because conceptual inconsistencies might be identified subsequently. While we agree that consistency is a desirable objective from the IASB's perspective, we also believe that an extended period of calm is necessary, once the Conceptual Framework project and other major projects (e.g. Insurance Contracts project) have been completed and their material and timing interactions with other significant Standards has been improved. The extended period of calm should cover three to five years.

Question 16 – Business activities

Do you agree with the proposed approach to business activities? Why or why not?

We believe that the business model consideration should play a role in financial reporting. The goal of financial statements is to portray the economic reality. Therefore, IASB is well advised to consider, when it develops or revises particular Standards, how this can be best ensured. From the perspective of the insurance industry it is of utmost importance that the inherent linkage between insurance contracts and assets backing them is properly considered. The development and/or adoption of interrelated Standards in isolation is inappropriate. Consequently, we have the view that the Conceptual Framework should be amended concerning this matter, i.e. to introduce a proper safeguarding measure to avoid such inconvenient circumstances.

Therefore, although we fully acknowledge that the Conceptual Framework should provide concepts with general application and not provide concepts with specific consideration to some industries only, the revised Conceptual Framework should explicitly require the IASB to consider potentially existing linkages between particular Standards when performing standard setting activities (as indicated for measurement decisions in paragraph 6.58).

For example, in case of the insurance industry the matter of fact is that the future Insurance Contracts Standard and the IFRS 9 needs to interact consistently to avoid significant distortions in performance reporting or inappropriate respective unfaithful presentation in the statement of financial position (incl. mismatches in equity presentation). Furthermore, also the unit of account approach is obviously dependent on the underlying business model. For example, although the contractual rights and obligations arise from individual insurance contracts, insurers in general manage, and use to measure, insurance contracts on a portfolio basis. Consequently, the objective of the future Insurance Contracts Standard (IFRS 4 Phase II) should be to provide principles for the measurement of insurance contract at portfolio level, in line with how the concerned reporting entities manage them.

Question 17 – Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

In general, we are supportive of the IASB's conclusions. Nevertheless, we believe that a clear and an explicit commitment to consider the characteristics of long-term oriented business models like insurance business when developing or revising particular Standards is necessary. Especially, the recent controversies about the need for the OCI presentation in the current measurement environment demonstrated that the outcome of the Board's deliberations might be very much depended on the respective Board composition and less on the conceptual considerations.

The results presented in the financial statements are considered to play a significant role in the investment decision process of investors. We especially highlight that the short-term volatility in the income statement, which might be of special interest for short-term oriented users of financial statements, is not relevant, when considering the long-term character of insurance obligations and the long-term investment horizon of insurers. The Board's decision on insurance contracts project regarding the introduction of accounting policy choice to apply the OCI presentation for effects of changes in markets variables and the Board's decision regarding the re-introduction of the FVOCI category for simple debt instruments in IFRS 9 take this matter of fact into account. Hence, especially the use of current measurement is the area where the needs of short-term and long-term investors differ significantly (against BCIN.40 (c)).

Consequently, IASB should be obliged in the Conceptual Framework to always carefully consider the consequences of the use of current measurement approach for long-term-oriented businesses. The application of the OCI presentation should be the default solution if the information provided by the amortised cost measurement should be considered to be not sufficient or inconsistent with the provisions of specific Standards for inter-related items.

Finally, it is generally essential that the financial reporting requirements are not putting long-term oriented business models in disadvantage via producing excessive short-term volatility (“market noise”) or via implicitly prohibiting the use of the FVOCI option for equity investments because of prohibition of recycling (of realised results from OCI to profit or loss). This contradicts the IASB’s transparency objective (BCIN.44 (a)) as well.

Question 18 – Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

We believe that the revised Conceptual Framework should clarify that the IFRS financial reporting is based on the concept of financial capital maintenance. Any deviations to this concept should be explicitly identified and IASB should provide a related rationale for such cases. It would remain a difficult task for IASB to work on the related performance reporting project without having clarified on which conceptual basis for example the profit recognition is determined.

We also understand and support that IASB is working on the project on how to distinguish liabilities from equity. We appreciate these efforts and the objective to subsequently incorporate the identified underlying concept(s) into the Conceptual Framework.

Finally, we appreciate the considerable efforts of the IASB to finalise the work on the revision of the Conceptual Framework in the course of 2016.