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Dear Simon

Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*

Thank you for the opportunity to comment on the above DP. CPA Australia has considered it and our comments are set out below.

CPA Australia represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

We support the International Accounting Standards Board (IASB) project to revise the Conceptual Framework and agree that the purpose of the current project should be to address gaps and areas where problems are being encountered in practice. We agree that the areas identified by the Board in the current discussion paper do include many of the areas of most pressing need.

However, we are concerned that the IASB's approach, as set out in the DP, is not suitably aspirational or forward looking. We consider that it is over-focused on solving current issues very narrowly and on providing conceptual justifications of existing practices. This has been at the expense of developing sound conceptual arguments that can form a conceptual foundation for directing the future of financial reporting. This approach is most apparent in the chapters on the distinctions between liabilities and equity, measurement, OCI and presentation and disclosure. While we recognise that is the discussion paper proposes a pragmatic approach to meet a tight timetable, we would prefer that these issues were addressed more thoroughly, even at the expense of the 2015 deadline.

One consequence of this narrow approach is that a number of conceptual issues have been delegated to standards level projects, rather than forming part of the Conceptual Framework project, where we consider they are more suited. This would particularly apply to issue of performance reporting and presentation and disclosure. We believe that this approach will continue to result in inconsistent standard setting until the issues at the heart of these topical discussions are resolved at a conceptual level.

Another consequence of the approach taken is that some of the fundamental issues that we believe lie at the heart of many of the issues the profession struggles with today are not considered in any conceptual way, Examples would be from whose perspective reports should be prepared, the concept of capital that underlies these reports and how best to report performance. Given, that the Conceptual Framework tends to be updated infrequently, we do not consider that these issues can wait until a future framework review, as inconsistency within the standards will continue well into the future if they remain unresolved.

We would encourage the IASB to reflect on how its development of the Conceptual Framework might benefit from recent publications like the AASB Essay 2013-1, Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework and the AASB Occasional Paper No. 1 Liabilities – the neglected element which focus on several of these wider issues.

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We are also concerned that the IASB's intentions to limit the Conceptual Framework to financial statements will give the document limited relevance to financial reporting. We believe it is essential to consider financial reporting in its wider context if the needs of users are to be more fully understood as these will then inform the decisions taken in order to ensure that the objectives of financial reporting are achieved. As such, greater acknowledgement of the wider issues associated with financial reporting which are also underpinned by the Conceptual Framework needs to be made during its revision process. In particular, greater involvement with the work of International Integrated Reporting Committee on its integrated reporting project could benefit both projects.

Similarly, we are also concerned that there is insufficient indication in the discussion paper about the level of collaboration that is being undertaken with the International Public Sector Accounting Standards Board (IPSASB) given that they are also working in this area. We believe a joint project is likely to be of far greater benefit to the profession as a whole than separate individual frameworks. It is absolutely critical that the IASB and IPSASB work together on these issues in order to create a framework that is, as much as practical, widely applicable and sector neutral. This will allow the IPSASB to continue its approach of modifying IFRS for public sector use easily, so promoting the goal of global standard setting.

Our detailed response to the questions posed in the discussion paper is contained in the attached appendix. If you have any questions regarding this submission, please contact Ms Deborah Leung General Manager – Greater China at CPA Australia via email at deborah.leung@cpaaustralia.com.au or Dr Mark Shying Senior Policy Adviser at CPA Australia via email at mark.shying@cpaaustralia.com.au.

Yours sincerely

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Appendix

Section 1 Introduction

Question 1

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

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?

(a) We do not agree with the Board's preliminary view that the primary purpose of the Conceptual Framework is for the IASB's use. We believe that the purpose of the Conceptual Framework is to articulate clearly what the profession as a whole considers are the principles underlying high quality financial reporting. The current Conceptual Framework has brought together the historical developments in accounting theory into a framework that is both recognised and used. While it is widely acknowledged that it is incomplete and out of date, it does deal with many of the fundamental issues involved in the identification , recognition, measurement and presentation and disclosure of economic phenomena, as well as who should report and what they should report.

All members of the profession, be they preparers, auditors or regulators, understand and use these concepts on a regular basis to ensure they deliver high quality financial reporting outcomes to users. Users, refer to the concepts to help them make sense of the information communicated to them through the financial statements. Specifically the framework is referred to when:

- Dealing with transactions for which there are no specific standards or where the application of the standards is unclear. While IFRS is reasonably comprehensive, the rate of growth in transaction structuring and the necessarily slow response time the Board can have to emerging issues makes a strong Conceptual Framework essential
- Making sense of Board decisions on specific issues and understanding and applying the decisions in the standards to specific circumstances without the need to resort to the IFRS Interpretations Committee
- Forming the basis on which the current generation and future generations of the profession can educate themselves on the principles on which financial reporting is founded and which necessarily underlie principles based standards.

To that end, users have many of the same expectations about the content of the framework that the IASB does. As a result, the deficiencies in the current Conceptual Framework are well known and have resulted in calls for the Conceptual Framework to be a high priority project going forward.

The IASB Conceptual Framework should strive to be complete and explicit. Its importance is already recognised by the hierarchy of requirements in IAS 8 *Accounting policies, changes in accounting estimates and errors.* This standard points preparers and users to refer to and consider the applicability of the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework in the absence of a specific standard. If achieving this goal means that the project needs to extend beyond its 2015 timetable then this will

be a small price to pay for resolving the major issues that are of concern to the profession and render financial reports difficult for users to understand.

(b) We agree that while a Conceptual Framework should be aspirational, it is not and should not be designed to address every circumstance. Therefore, we agree with the Board's preliminary view that a departure from it when setting standards should be permissible. However, such decisions should not be taken lightly. Ideally, the Conceptual Framework should clearly identify factors that the IASB should refer to when choosing to apply, at a standards level, an approach that is different from the Conceptual Framework. We believe that responding to the demands of the framework's qualitative characteristics of information, subject to a cost / benefit analysis, are an acceptable reason for departing from the framework and should be clearly envisaged as such in the framework.

Where the Board identifies the need for departures, the IASB should consider and communicate its justifications for that decision and also its view on the effect that decision has on its Conceptual Framework document. If the Board is of the view that the framework might need further development, then the timeframe and due process it proposes to undertake in order to rectify any resulting concerns (which should be rare) should also be communicated.

Section 2 Elements of financial statements

Question 2

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

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

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

(a) We agree that the revised definition of an asset will ensure focus is better directed to the rights contained within the assets rather than the economic benefits attached to those rights. We agree that the term 'present' is a useful addition to the definition to ensure symmetry with the liability definition. We also agree with retaining the term "past events" to ensure adequate focus is placed on the need to identify when or how the resources came to be controlled in order to ensure it is correctly recorded.

(b) We agree that the revised definition of a liability will ensure focus is better directed to the inherent obligations that have been incurred by an entity. We also agree to retain the "past events", to ensure that adequate focus is placed on the need to identify when or how the obligations were incurred in order to ensure it is correctly recorded.

(c) We agree with the definition of an economic resource and its use in the asset definition to better encompass the economic benefits within assets.

Question 3

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?

(a) We agree with the removal of the term "expected" from the definition of an asset. We consider that an asset need only be capable of producing inflows in order to be defined as an asset and consider that matters of uncertainty that underlie valuation are best dealt with by having separate specific asset recognition criteria rather than confusing these issues within the definitions.

(b) and (c) We do not agree that, at this time, it is appropriate to remove the probability thresholds for existence uncertainty or recognition uncertainty from the asset recognition criteria. While conceptually we can see the merits of this approach, we are concerned it places too much emphasis on as yet poorly developed measurement concepts to cope with assets of uncertain value. Time spent identifying all types of assets that are capable of producing inflows is likely to far outweigh the costs of producing the information. This may cease to be the case once we have clearly resolved the conceptual issues surrounding concepts of capital and appropriate measurement bases. However, currently effective resolution of these issues is not clear and so "probability" should be retained until such time as this occurs.

Question 4

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?

We consider that it is appropriate to retain the existing definitions of income and expense based on the asset and liability definitions. Changes in these should then drive the information reported in the income statement.

However, we consider that more work needs to be done within the framework to develop effective performance reporting concepts. Perceptions exist that the emphasis on assets and liability changes impairs the way performance is both recorded and reported and these perceptions damage the credibility of financial reporting.

Concepts such as OCI, the differences between income and gains, and expenses and losses and the relationships between the income statement, cash flow statement and balance sheet are not well drawn together by the current framework and have resulted in presentation and disclosure standards which demonstrably do not meet user's needs. Clear objectives for financial reporting in this area need to be established so that the resulting decisions about presentation and disclosure logically follow from these principles. We also believe these issues need to be dealt with at a conceptual level first, before or at least in conjunction with current plans to revise IAS 1 and IAS 7 (see our comments on the questions in section 7, questions 19-21).

We do not consider that defining any of the additional items identified in paragraph 2.52 as "elements" of the financial statements is appropriate. We consider they are only subgroups of the four identified elements. However, they are useful for understanding the breadth and depth of the main concepts. Therefore, in the same way the current framework identifies categories of income and expense, we consider that the terms "contributions to equity", "distributions of equity" and "transfers between classes of equity" would benefit from discussion. This is because they are subsets of an undefined term (equity) and provide useful means of breaking up the information that is contained within that term.

Section 3 Additional guidance to support the asset and liability definitions
Question 5
Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50.

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

We agree with including constructive obligations as liabilities. We consider that entities incur a range of obligations that are not necessarily legally enforceable but are nonetheless obligations of their ongoing business activities. Recognition of constructive obligations provides useful information to users of the financial statements. We also agree that clarity in the area of distinguishing constructive obligations from economic compulsion is vitally important to assist in the application of the professional judgment that will be necessary when this approach is adopted. We therefore support the inclusion of additional guidance in the Conceptual Framework on this issue.

Question 6
The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the *Conceptual Framework* are put forward:

a. **View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory; avoid the transfer through its future actions.**

b. **View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.**
c. **View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.**

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

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

We support view 2 – that a present obligation must be practically unconditional in order to qualify as a liability. We consider that users are interested in more than just the strict legal liabilities of the entity, especially given that going concern is an underlying assumption. Therefore, we consider it appropriate to recognize some conditional obligations. However, it is impractical to attempt to recognise liabilities subject to all types of conditions. Therefore, we consider the best dividing line would be obligations which the entity has no practical means of avoiding if it is to remain economically viable.

Question 7
Do you have comments on any of the other guidance proposed in this section to support the asset and liability definitions?

We support the inclusion of additional guidance into the Conceptual Framework on the concepts of economic resources and control to support the definition of assets. We consider these concepts are fundamental to the exercise of professional judgment associated with implementing the asset definition.

For the same reason, we also support inclusion of guidance on the concept of transfer of an economic resource for liabilities and the inclusion of material on dealing with rights and obligations within both executory and other contracts.

Section 4 Recognition and derecognition
Question 8
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?

We do not agree that the Conceptual Framework's recognition criteria should be expressed in terms of "everything except what the IASB decides". We believe this focus on the IASB's role fails to produce criteria that are robust enough to provide guidance to financial statements users and preparers when dealing with new situations and transactions.

However, we do agree that the recognition criteria need to have as their objective to provide relevant information so that it can be measured in a way that faithfully represents its value to users of financial statements.

We also believe the probability criteria needs to be retained as part of the recognition criteria to provide a practical basis upon which to make recognition and derecognition decisions. We consider this is necessary until such times as we have clear principles relating to, measurement as discussed in questions 11-15.

Question 9
In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

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

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

We agree that the concept of derecognition should be explicitly addressed in the framework to ensure the results of the economic phenomena that has caused the asset or liability to no longer meet the recognition criteria is appropriate. We agree that control should be the criterion used for derecognition in the same way it is used to assess asset recognition, as the process needs to be a mirror image of recognition. However, we do not agree that the issue of partial derecognition should be a standards level decision.

The framework needs to be robust enough to deal with a variety of derecognition scenarios – not just the ends of the spectrum. It, therefore, needs to contain clear principles relating to the issues involved in partial derecognition that standard setters and others can then use to help make appropriate assessments about the loss of control. The principles should be based on the notion that the entity should not continue to recognise the original asset or liability once control is lost but should separately recognise a new asset/ liability based on the rights/ obligations retained.

Section 5 Definition of equity and distinction between liabilities and equity instruments
Question 10
The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1–5.59. In the IASB's preliminary view:

a. **the *Conceptual Framework* should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.**
b. **the *Conceptual Framework* should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. 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?

(a) We agree that equity should continue to be defined as the residual interest in the assets of the entity after deducting all its liabilities. We consider that assets and liabilities are the principal building blocks for reporting economic phenomena and that the claims an entity's owners can reasonably expect to have on its assets are best reflected by using this definition.

(b) We agree that the definition of a liability should be used to distinguish liabilities from equity and that, in consequence, obligations to issue equity instruments are not liabilities and neither are obligations that will arise only on liquidation of the reporting entity. Attempting to define equity leaves open the possibility that something may fit neither definition, which we do not consider is helpful to the reporting of useful information. However, given the difficulties associated with some of the more complex financial instruments, we believe the CF should identify the main types of equity that will arise if the strict obligation approach is adopted as an indication of how the definition impacts equity elements.

(c) We do not support the idea of remeasuring classes of equity via the statement of changes in equity. We prefer to adopt the "entity perspective" for financial statements and therefore do not believe that the financial statements should attempt to provide detailed information on how the entity's resources might be distributed to owners in this way. The proposals set out in the discussion paper create allocations and resulting wealth transfers that are artificial measures of equity that are supported by changes in assets and liabilities. We do not consider these provide meaningful information to users. The use of the current approach on non-controlling interest accounting is also problematic as there are conceptual difficulties with this approach when adopting our preferred entity perspective. We recommend that further work is done in order to identify the main types of equity that will arise if the strict obligation approach is adopted, what information users might need about these and how best to communicate this.

(d) We do not agree with the notion of treating the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. We believe that the "entity perspective" rather than the "parent perspective" is a more appropriate framework for financial statements and so an equity classification is not essential if it is not appropriate in the circumstances. Should a particular type of organisation demand equity presentation for particular instruments that might otherwise be liabilities (e.g. cooperatives and puttable interests) we accept that permitting this at a standards

level in response to the needs of users would be a reasonable circumstance to depart from the Conceptual Framework in this area.

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 IASB on the need for a clear measurement objective and associated discussion to be included in the Conceptual framework.

Paragraph 6.10 of the Conceptual Framework describes the objective of measurement "is to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing Board have discharged their responsibilities to use the entity's resources". Paragraph 6.6 notes that the objective of financial reporting along with the fundamental qualitative characteristics of useful financial information is the basis that underlies the measurement concepts articulated in the Conceptual Framework. It proposes that relevance and faithful representation are the most important factors when choosing a measurement base. The enhancing qualitative characteristics of understandability, verifiability and comparability are less important. Further, paragraph 6.16 states

"...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 the entity's future cash flows".

We believe this section of the Conceptual Framework would be improved by expressing the measurement objective aspirationally as opposed to the way the objective is expressed in preliminary view (a) above. Consequently, in this section the IASB should express clearly its view on the issues of the business enterprise and the concept of capital. In the case of the former, does it support a proprietary or entity view? In the case of the latter does it support a financial or physical concept of capital? We would then like the measurement section to develop the link between the ideal concept of capital, the ideal concept of capital maintenance and the resulting selection of a measurement basis that is the consequence of applying those concepts.

For example, the Board may determine that in the course of determining the appropriate measure for profit, the ideal concept of capital maintenance is the maintenance of financial capital in money terms. It would therefore follow that the appropriate measurement base is historical cost. Alternatively, the Board may determine that the ideal concept of capital maintenance is:

- the maintenance of financial capital in real terms with the resulting selection of exit price as a measurement base or
- maintaining the productive (operating) capacity of the entity with the resulting selection of an entry price as the appropriate measurement base.

Moreover, we think it appropriate that the measurement discussion include a reference to an asset or a liability and its contribution to the entity's future cash flows. The discussion here is also relevant to the discussion on capital maintenance at section 9.

While we consider that the Conceptual Framework discussion on this topic must be aspirational, we also think it must be practical. We therefore agree with the IASB's preliminary view in (b) above, that a single measurement basis is not likely to be appropriate in all circumstances. Therefore, we agree with the IASB that the Conceptual Framework should clearly identify factors that should be referred to when choosing, a measurement base to be applied to particular assets and liabilities at a standard level. This can then underpin any decision made on a base that is different from the one dictated by its ideal capital concepts. We believe that the Conceptual Framework's qualitative characteristics of relevance, faithful representation, understandability, verifiability and comparability subject to a cost-benefit analysis are suitable for this purpose. We also agree that the discussion in this area should explicitly consider the impact of the choice on both the profit and loss and balance sheet as set out in preliminary view (c) above as well as cost/ benefit (preliminary view (f) and so we support both these views . We also consider that it should also state that, while a mixed measurement model may be inevitable, minimising the different models being used is also fundamental to ensuring the relevance and reliability of reported information (preliminary view (e)) and so we support this view.

Paragraph 6.17 states that the selection of a measurement base for a particular liability should depend on how the entity will settle or fulfil that liability. We understand the characteristics of a liability refer to the amount and timing of future resource flows and the uncertainty related to the amount and timing of those flows, including non-performance risk (being the possibility that the obligation will not be fulfilled by the entity). Accordingly, as we do not support the IASB proposition that fulfilment value excludes non-performance risk we do not support its use as a basis for the selection of a measurement base for a particular liability. We therefore do not support preliminary view (d).

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.

We do not support the preliminary views and the related proposed guidance.

In our response to Question 11 above we explained our view that this section of the Conceptual Framework should address measurement in a comprehensive, aspirational and practical way that includes ideal capital concepts. We expressed our support for the IASB to use the Conceptual Framework qualitative characteristics of relevance, faithful representation, understandability, verifiability and comparability subject to a cost-benefit analysis as factors to be referred to by it in choosing to apply at a standards level to particular assets and liabilities a measurement basis that is different from its ideal capital concepts.

As the Conceptual Framework does not express aspirational ideal capital concepts the approach expressed in the preliminary views can be best described as one which categorises assets by measurement base subject to the asset's relationship to cash flows. We think what is described here might be the decisions made at a standards level. We do not think detail of this type is appropriate at the level of a Conceptual Framework.

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 do not support the preliminary views and the related proposed guidance.

Our responses to Questions 11 and 12 above are relevant here. We have explained the need for the Conceptual Framework to address measurement in a comprehensive, aspirational and practical way that included ideal capital concepts. Further, it is our view that the Conceptual Framework should specify qualitative characteristics that would be referred to by the IASB in choosing to apply at a standards level to particular assets and liabilities a measurement basis that is different from those ideal capital concepts.

As the Conceptual Framework does not express aspirational ideal capital concepts the approach expressed in the preliminary views can be best described as one which categorises liabilities by measurement base subject to the liability's relationship to cash flows. While this approach might describe possible decisions at a standards level we consider it is inappropriate for a Framework.

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?

We do not support the preliminary views for the reasons we have stated and restated in our responses to Questions 11, 12 and 13.

Question 15

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

We have no further comments on the discussion of measurement in this section.

Section 7 Presentation and disclosure

Question 16

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

a. **the primary purpose of the *Conceptual Framework*, which is to assist the IASB in developing and revising Standards (see Section 1); and**
b. **other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:**

i. a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;
ii. amendments to IAS 1; and
iii. additional guidance or education material on materiality.

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

a. presentation in the primary financial statements, including:
  i. what the primary financial statements are;
  ii. the objective of primary financial statements;
  iii. classification and aggregation;
  iv. offsetting; and
  v. the relationship between primary financial statements.

b. disclosure in the notes to the financial statements, including:
  i. the objective of the notes to the financial statements; and
  ii. the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

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

We do not agree with the context in which the IASB's preliminary views, as expressed here, have been developed. We do not support the idea in preliminary view (a) that the Conceptual framework is primarily for use by the board, as set out in our response to Question 1. Further, we do not support the view that the content of this section should be developed in light of the other work on presentation and disclosure being done which might assist the IASB in developing and revising standards in this area (preliminary views (b)). We believe that the Conceptual Framework is the appropriate place to address presentation and disclosure objectives and those improvements in financial reporting are more likely to result from the incorporation of these projects into the Conceptual Framework as opposed to trying to progress them separately. We have similar concerns about materiality.

It is our view that this section should be about establishing terminology and the decisions an entity makes on how it will communicate general purpose financial statement information.

Accordingly, we consider it is communication that is the selection, location and organisation of information. That information may be presented on the face of the financial statements or in the notes to the financial statements. We think the proposal in paragraph 7.11 to modify terminology that is well understood in the context of financial statement is unhelpful and will cause unnecessary confusion.

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?

No we do not agree with this approach. We believe the Conceptual Framework would benefit from the inclusion of additional guidance on materiality. The topic is of fundamental importance to recognition and presentation and disclosure issues and addressing the issues identified in paragraph 7.46, which are of concern in practice, would be helpful.

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 that the Conceptual Framework would benefit from clearly stated communication principles about the selection, location and organisation of information in financial statements. These would emphasise the importance of financial reports as a communication tool for the entity and set the scene for the subsequent presentation and disclosure discussions. We agree that the communication principles being proposed address the fundamental issues in this area.

Section 8 Presentation in the statement of comprehensive income—profit or loss and other 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? 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 amending Standards?

We consider the Conceptual Framework should express a performance measure objective. Without a performance measure objective it is difficult to identify what results should be reported and the purpose of and need for a distinction between net income and other comprehensive income (OCI). We expect this objective would be informed by understanding the measures that investors use in their analysis of financial performance. We understand profit or loss is a key measure and we agree that the Conceptual Framework should require profit or loss to be presented as a total of subtotal on the statement(s) of profit or loss and OCI.

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 OCI to be recognised subsequently in profit or loss, i.e. recycled, is discussed in paragraphs 8.23–8.26.

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

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

In our response to Question 19 above we stated our reasons why the Conceptual Framework should express a performance measure objective. Without a clear objective it is difficult to distinguish between net income and OCI . It is also difficult to identify how to determine different measures (be that as totals, subtotals or independently of that process as for example is done with earnings per share) and their presentation.

Moreover, a performance measure objective may address the issue of recycling. There is no clarity around the current approach in IFRS that requires recycling for some items but not for others and in the absence of this clarity the concept is difficult to support conceptually. . Our preference is for the Conceptual Framework to require either:

- all items initially recorded in OCI to be eventually recognised within net income; or
- no recycling of items initially recorded in OCI.

However, we do recognise that it might not be possible for the Conceptual Framework to express a single view on recycling and instead direct that it is an issue that is best addressed at a standards level.

Question 21
In this Discussion Paper, two approaches are explored that describe which items could be included in OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79–8.94).

Which of these approaches do you support, and why?

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

We do not think it appropriate for the Conceptual Framework to include this level of detail.

Section 9 Other issues
Question 22
***Chapters 1 and 3 of the existing* Conceptual Framework**

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*.

We agree with the IASB that it is not necessary to fundamentally reconsider the content of these two published chapters. However, we do believe that finalising the conceptual framework project will require a review of the two published chapters in light of the work on the material described in the Discussion Paper. This will ensure that concepts in the latter chapters, which depend on or use concepts from the earlier chapters, are clearly and explicitly linked. A review of this type also enables the entire Conceptual Framework to be subjected to a contemporary holistic evaluation before its finalisation.

Question 23
Business model
The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

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

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

Should the IASB define 'business model'? Why or why not?

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

Paragraph 1.35 states "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to users of financial statements in making decisions about providing resources to the entity". The paragraph also notes the usefulness of financial information is enhanced if it is comparable.

We agree with the preliminary view that a consideration of how an entity conducts its business activities might be useful in the development of individual standards. Doing so may enable financial statements to be made more relevant to users. In this context, we think it would be useful for the Conceptual Framework to include some discussion of the effect of entities reflecting their different business models on the production of information that is comparable.

Question 24
Unit of account
The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

We agree that the unit of account should be based on the qualitative characteristics of useful information and we think it would be useful for the Conceptual Framework to express that. We also agree with the IASB that the unit of account will normally be decided at a standards level. However, because the concept is such a fundamental one, impacting recognition, measurement, presentation and

disclosure decisions, we argue that it would be helpful to include guidance on the concept and its practical application included in the framework.

Question 25
Going concern
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 are not aware of any other situations where the going concern assumption might be relevant.

Question 26
Capital maintenance
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.

In our response to Question 11 above we stated our view that the Conceptual Framework should articulate an ideal concept of capital maintenance and its relationship to the ideal measurement base. Accordingly, we do not support the proposal that leaves the existing descriptions and discussion of this issue largely unchanged until such time as any project on accounting for high inflation indicates a need for change. We think this approach suggests a lack of understanding about the fundamental role a capital maintenance concept has within the accounting framework. We also consider that our current difficulties with profit measurement and OCI, which have issues of capital maintenance at their root clearly indicate a pressing need to resolve these issues.