Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

September 23, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: IASB's project to update and amend the Conceptual Framework

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] would like to take this opportunity to applaud the IASB's decision to accelerate the project to update and amend the Conceptual Framework (CF). As we have observed in the annual improvements projects and in other instances, occasionally individual standards conflict and require inconsistent accounting, as a result of the conclusion that in some cases applying some aspect of the CF does not produce financial information about the reporting entity that is useful to the users of the financial statements. While observed inconsistencies are being corrected with the proposed annual improvements, various other inconsistencies remain and some new ones have been created with recent pronouncements.

As mentioned in our comment letter dated November 30, 2011 on the ***Agenda Consultation 2011***, we believe the CF project "should be the top priority for the IASB".

Due process

A Technical Working Group (TWG) was created by GLASS in October 2012 to study the issue of the hierarchy of the CF of International Financial Reporting Standards (IFRS). All country-members had the opportunity to designate at least one member to participate in this TWG, and the following countries did so: Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico (coordinator of this TWG), Panama, Uruguay and Venezuela.

The study carried out by the TWG was divided into two parts:

1. Develop an inventory of identified inconsistencies between the CF and individual standards.
2. Analyze whether the hierarchy of the CF should remain as it is today or whether the CF should be elevated to the highest level of hierarchy in IFRS. In the latter case, sound and convincing arguments for the change should be developed.

[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile, Colombia (Board), Dominican Republic, Ecuador, El Salvador, Guatemala (Board), Mexico (Vice Chairman), Panama, Paraguay, Peru, Uruguay (Board) and Venezuela (Board).

Upon completion of both parts of the above mentioned study, the TWG prepared this letter from GLASS to the IASB that includes our observations and recommendations.

Various virtual meetings were held with the members of the TWG, and individually the TWG members held meetings in their respective countries to discuss this issue. The TWG members then summarized the observations and comments obtained in their respective countries. Subsequently, the information received from each country was compared and summarized by the TWG coordinator to prepare this letter.

Although the TWG began its work long before the IASB issued its ***Discussion Paper*** (DP) on the ***Review of the Conceptual Framework for Financial Reporting*** in July 2013, we note that the focus of the study the TWG is specifically addressed in Question 1 of the DP as follows:

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?

For the reasons explained below, approximately one half of the members of the TWG do not agree with the preliminary views expressed in paragraphs 1.30–1.32 of the DP.

Overall observations and comments

All countries agreed that inconsistencies between the CF and individual standards exist, but the number and severity of identified inconsistencies is not significant. Additionally, the Bases for Conclusions for some individual standards often address and justify the perceived inconsistency. Attached to this letter is the brief inventory of inconsistencies developed by the TWG.

Paragraph 1.30 of the DP states "The existing Conceptual Framework is not a Standard or Interpretation and does not override any specific Standard or Interpretation. This Discussion Paper does not propose to change this position." However, in IFRS there are numerous references that demonstrate the relevance that the CF has for the IASB, as established in paragraphs 10 and 11 of IAS 8, *Accounting Policies, Changes in Accounting and Errors*, which establish that in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an appropriate accounting policy. In making such judgments, management shall use resources such as definitions, recognition criteria and measurement concepts for assets, liabilities, revenues and expenses that are established in the CF of IASB.

Additionally, paragraph BC24 of the basis for conclusions of IAS 1, *Presentation of Financial Statements*, establishes something similar, since it mentions that for financial statements to fairly present financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in the CF of IFRS.

In practice we observe that there are individual standards of IFRS that establish accounting criteria that do not comply with the CF of IFRS. Additionally, we have observed interpretations of particular standards that also go against the CF of IFRS.

Paragraph 23 of IAS 1, establishes the requirements to meet in the extremely rare circumstances in which management of the entity concludes that compliance with a requirement in a particular standard would be so misleading that it would conflict with the objective of financial statements set out in the CF of IFRS. Even though this provision is considered to apply only in exceptional circumstances (and in practice we have only observed a single case where this provision was applied), we believe that such a provision would be unnecessary if the CF were considered to be the highest level in the hierarchy of IFRS and the issuance of all individual standards were mandatorily in conformity with the CF. On the other hand, if the existing level of hierarchy is maintained, this paragraph is necessary to address those rare circumstances where management take exception to the accounting prescribed by a particular standard.

As stated in paragraph 1.25(d) of the DP, the purpose of the CF of IFRS, among others, is "to assist preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of an IFRS." The CF of IFRS does not deal with specific measurement and disclosure issues. The IASB recognizes that, in a limited number of cases, there could be a conflict between the CF of IFRS and some particular IFRS or interpretation.

Finally, many believe that the use of the CF as the basis for the development of individual standards that do not violate such CF promotes a principles-based approach and minimizes the use of rules in individual standards.

Conclusions reached

The members of the TWG were divided in their assessment as to whether the CF should remain as it is today or whether the CF should be elevated to the highest level of hierarchy in IFRS. While all agreed that the number of inconsistencies or conflicts between the CF and individual standards should be minimized, one half of the members of the TWG are unconvinced that any change from the existing hierarchy is necessary.

Those in favor a maintaining the hierarchy as is -

The primary concern of those in favor of not changing the hierarchy is the potential for preparers to come to different conclusions and interpretations regarding the application of individual standards of IFRS, which could significantly impair the transparency, consistency and comparability of financial information. Additionally, they argue that the CF is only intended to provide theoretical guidance and not define specific rules for the valuation, presentation or disclosure of information in financial statements. Accordingly, they recommend:

- maintaining the existing hierarchy of the CF;
- identifying existing conflicts or inconsistencies between the CF and individual standards;

- proposing amendments to either the CF or individual standards, or both, to eliminate the conflicts or inconsistencies; and

- maintaining a list of those conflicts or inconsistencies that apparently cannot be eliminated.

Those in favor of a change in hierarchy -

It is very important to take into account that those in favor of a change in hierarchy are not suggesting that individual standards not be respected in those cases where an inconsistency or a conflict with the CF currently exists. Rather, they believe that going forward, the issuance of a standards or an interpretation that is inconsistent or in conflict with the CF be prohibited, as opposed to what is included in paragraph 1.32 of the DP which states:

> "Although the Conceptual Framework should guide the IASB when it develops new Standards, there may be rare cases when applying some aspect of the Conceptual Framework does not produce financial information about the reporting entity that is useful to the users of the financial statements. In such cases, the IASB may decide that it needs to issue a new or revised Standard that conflicts with that aspect of the Conceptual Framework in order to meet the overall objective of financial reporting. This Discussion Paper proposes that, in such a case, the IASB should describe the departure from the Conceptual Framework, and the reasons for it, in the Basis for Conclusions on that Standard."

Consistent with those members of the TWG that are in favor maintaining the hierarchy as is, this group also believes that all existing inconsistencies or conflicts be eliminated as soon as possible either through an amendment or improvement of a particular standard to conform to the CF, with the individual standard continuing in force in its entirety until amended. To do otherwise could result in chaos with some entities following a particular standard and others not, based on their respective assessments of the existence of a conflict with the CF.

We respectfully request that the IASB consider the preceding recommendations. We plan to include these recommendations in our response to the DP on the CF early in 2014.

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

Jorge José Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

Attachment

INVENTORY OF INCONSISTENCIES BETWEEN THE CONCEPTUAL FRAMEWORK AND INDIVIDUAL IFRS

No.	Conceptual Framework	Individual Standard	Observation and Recommendation
1.	4.38 An item that meets the definition of an element should be recognised if: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.	IFRS 3.23 The requirements in IAS 37 do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph 56 provides guidance on the subsequent accounting for contingent liabilities.	Recognition of a contingent liability at the date of a business combination even though an outflow of resources embodying economic benefits to settle the obligation is not probable is contrary to the CF. Additionally, recognition of a liability that does not yet exist results in the increase of goodwill by creating provisions that will be reversed into earnings since their materialization is unlikely. In fact, the recognition of such liabilities could be considered to represent the creation of hidden reserves. We recommend that IFRS 3 be revised to establish that only liabilities that represent a probable future outflow of economic resources be recognized in a business combination.
2.	4.44 An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.	IAS 20.23 A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative	The recognition of assets associated with a government grant at a symbolic nominal amount does not conform to the CF, which requires that to be recognized an asset must have a cost or value that can be measured reliably. We recommend prohibiting the

		course that is sometimes followed is to record both asset and grant at a nominal amount.	alternative treatment.
3.	4.46 A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognised as liabilities in the financial statements. However, such obligations may meet the definition of liabilities and, provided the recognition criteria are met in the particular circumstances, may qualify for recognition. In such circumstances, recognition of liabilities entails recognition of related assets or expenses.	IAS 20.24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.	The deferred income does not meet the definition of a liability in the CF since it does not represent a present obligation that will result in an outflow of resources embodying economic benefits. We recommend eliminating the option to recognize deferred income.
4.	4.38 An item that meets the definition of an element should be recognised if:	IAS 38.33 In accordance with IFRS 3, *Business Combinations*, if an intangible asset is acquired in a business	We do not believe that if asset acquired in a business combination is separable or arises from contractual or other legal

	(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.	combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations.	rights, sufficient information necessarily exists to measure reliably the fair value of the asset. We recommend that an acquiror recognize only those identifiable intangible assets that meet the recognition criteria of IAS 38, even if those intangible assets would not have been recognized in the financial statements of the acquiree. This means that if the acquired intangible asset cannot be reliably measured at its fair value or is not identifiable, such asset should not be recognized separately as an intangible asset and should be included in goodwill.
5.	4.38 An item that meets the definition of an element should be recognised if: (a) it is probable that any future	IFRS 6.6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of IAS 8,	We believe that the existence of growing exceptions in this regard, using only as examples the exceptions described in IFRS 6, *Exploration for and*

	economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.	*Accounting Policies, Changes in Accounting Estimates and Errors*. IFRS 6.7 Paragraphs 11 and 12 of IAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item. Subject to paragraphs 9 and 10 below, this IFRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets. IAS 8.11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRSs dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.	*Evaluation of Mineral Resources*, and IFRS 3, *Business Combinations*, merits a review of the concept of "probable" for the recognition of assets and liabilities. It should be highlighted that both standards are relatively new and as a result, their concepts cannot be attributed to old or aging standards that have not been reviewed by the current members of the Board of the IASB. It should be considered that the classification as "probable" (recorded) and "possible" (disclosed) creates an "all or nothing" scenario that is often inadequate in reality. The growing use of fair value (that of course takes into consideration the probability of occurrence of relevant events for the determination the cash flows associated with the recognition of assets and liabilities) and the growing existence of exceptions to the concept of "probable", indicate that the concept does not adequately respond to all situations that are faced and, as a result, confirm that such concept should be reviewed.

		IAS 8.12 In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.	Our opinion is that the ability to reliably measure an element, putting aside whether its probability of occurrence is greater than 50%, gives rise to the presentation of relevant information for the users of financial information and allows eliminating the existing inconsistencies between different standards. Clearly, for practical reasons it is acceptable in certain situations to formulate assumptions that facilitate the response to specific circumstances in which the calculation of probabilities is not justified.
6.	**Faithful representation** QC12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever,	IAS 37.92 In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has	In this case, in view of the potential damage to the entity, IAS 37 allows a disservice to users by validating that “in extremely rate cases”, in the judgment of the management of the entity, all required disclosure need not be made. It should be noted that the social responsibility to fully, appropriately and adequately report, includes the financial statements of the type of entity referred to in paragraph 92. In those cases (paragraph 92) faithful

	achievable. The Board's objective is to maximise those qualities to the extent possible.	not been disclosed.	representation in the financial statements is lost, according to the concepts of the CF. As a result, we recommend that paragraph 92 be eliminated from IAS 37, or at least amended to establish that not only should the nature of the dispute be disclosed, along with the fact that information has been omitted and the reason for such decision, but also that minimum requirements be established, i.e. to report what additional information should be disclosed in these rare cases in practice and include an example in the application guidance.
7.	**Timeliness** QC29 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.	IFRS 10.B93 If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial	With respect to the maximum difference of three months contemplated by IFRS 10 and IAS 28, that may exist between the date of the consolidated financial statements and of its subsidiaries used for the preparation of the consolidated financial statements, there is an inconsistency with the qualitative characteristic of timeliness, since with today's technology there would appear to be little justification for this delay in

		statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period. IAS 28.34 When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.	reporting consolidated financial information.
8.	4.4 The elements directly related to the measurement of financial position are assets, liabilities and equity. These are	IAS 17.33 Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over	It is clear that the lessee's right to use the underlying asset meets the definition of an asset in the CF, and the

	defined as follows: (a) An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (b) A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (c) Equity is the residual interest in the assets of the entity after deducting all its liabilities. 4.12 Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; <u>thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property</u>. Although the capacity of an	the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.	lessee's obligation to make lease payments meets the definition of a liability in the CF, as recognized by paragraphs BC 14 and BC 16 of the current lease project. We are pleased that this inconsistency is being addressed in the ***Leases*** exposure draft. As currently proposed, all lease contracts will be recognized on the statement of financial position of all lessees, except for those contracts with a non-cancellable term of one year or less, thereby eliminating this inconsistency for most lease agreements.

	entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.		