GLENIF
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Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

January 14, 2014

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

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

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Discussion Paper on *A Review of the Conceptual Framework for Financial Reporting* (the "DP"), published in July 2013.

This response summarizes the primary views of our country-members, in accordance with the following due process.

Due-process

The discussions in regard to the 2013 ED were held within a specified Technical Working Group (TWG) created in October 2013. All country-members had the opportunity to designate at least one member to participate in this TWG, and the following countries designated a representative and participated actively in the TWG: Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico (coordinator of this TWG), Uruguay and Venezuela.

Each country decided the most effective way to obtain the input from local interested parties, which included presentations to specific interest groups, as well as written and verbal communications.

Individually, all TWG members summarized the general comments and specific responses from their respective countries. Subsequently, the answers presented in each country's summary were compared and discussed before preparing a consensus response.

Overall comments

The overall opinion of the countries that participated in this TWG strongly supports the proposed changes and additions to the existing *Conceptual Framework for Financial Reporting* (CFFR). We observed some differences of opinion with respect to some of the proposed changes, but nothing that detracts in any way from the project. In each of our responses to the specific questions raised in the DP, we present the consensus response, followed, as applicable, by the exceptions to the consensus response.

[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), Costa Rica (Observer), Dominican Republic, Ecuador, El Salvador, Guatemala (Board), Honduras (Observer), Mexico (Vice Chairman), Panama, Paraguay, Peru, Uruguay (Board) and Venezuela (Board).

In Attachment 1 you will find our responses to the specific questions raised in the DP. These responses represent the consensus of local interest groups of several countries in Latin America interested in the development of International Financial Reporting Standards (IFRS).

A brief summary of our more significant observations and comments is as follows:

- The addition of sections on measurement, presentation and disclosure, and presentation of the statement of profit and loss and other comprehensive income (statement of comprehensive income), is most welcome and was long overdue. These new sections will significantly enhance the ability of the CFFR to achieve its stated primary purpose of assisting the IASB by identifying concepts that it will use consistently when developing and revising IFRSs.

- Some of our constituents believe that the CFFR should be part of IFRS and therefore normative, as opposed to solely being a tool for the development and maintenance of IFRS. One country in our region has developed a local CFFR that is normative and considered to be "constitutional" in nature, thereby not allowing the issuance or application of individual standards that conflict with some aspect of the local CFFR. It should be mentioned that a separate TWG was created in 2012 to study this issue, and a letter dated September 23, 2013 was prepared and sent to the IASB to communicate the conclusions of the TWG. The content of that letter is included again in our response to Question 1 in Attachment 1.

- Although there is general support for the revised definitions of assets, liabilities and economic resources, some countries are concerned that removal of the notion "that an inflow or outflow of economic resources" is expected from the definitions could create confusion and result in the recognition of excessive assets and liabilities that contribute little or nothing to the overall quality of financial information.

- Our constituents unanimously expressed a preference for View 2 with respect to the definition of a present obligation, i.e. that a present obligation must have arisen from past events and be practically unconditional.

- Our constituents are divided as to whether the narrow or broad approach to other comprehensive income (OCI) is the right answer. There are strong supporters of both approaches. Both arguments are presented in our response.

Finally, at the end of Attachment 1 we have included for your consideration some additional comments and suggestions not directly related to the DP.

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

Yours sincerely,

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

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Attachments

Attachment 1

GLASS' Comment Letter on the IASB Discussion Paper on the Conceptual Framework for Financial Reporting

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?

Our constituents are divided as to whether the CFFR should be part of IFRS and therefore *normative*, as opposed to solely being a tool for the development and maintenance of IFRS.

One country in our region has developed a local CFFR that is normative and considered to be *constitutional* in nature, thereby not allowing the issuance or application of individual standards that conflict with some aspect of the local CFFR. Another two countries have local CFFRs aligned with that of the IASB, but the representatives of those countries in our TWG are of the opinion that the issuance of a new or revised standard that conflicts with an aspect of the CFFR should be prohibited.

A separate TWG was created by GLASS in October 2012 to study the issue of the hierarchy of the CFFR of the IASB. The study carried out by that TWG was divided into two parts:

1. Develop an inventory of identified inconsistencies between the CFFR and individual standards.

2. Analyze whether the hierarchy of the CFFR should remain as it is today or whether the CFFR 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.

Although the previous TWG began its work long before the IASB issued this DP in July 2013, we note that the focus of the study of that TWG specifically addresses this question.

All countries agreed that inconsistencies between the CFFR and individual standards exist, but the number and severity of identified inconsistencies is not significant. Additionally, the Basis for Conclusions for some individual standards often addresses and justifies the perceived inconsistency. Attachment 2 to this letter includes a brief inventory of inconsistencies identified by the prior 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 CFFR 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 CFFR of the 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 CFFR of the IASB.

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

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 CFFR of the IASB. 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 CFFR 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 CFFR. On the other hand, if the existing level of hierarchy is maintained, this paragraph is necessary to address those rare circumstances where management takes exception to the accounting prescribed by a particular standard.

As stated in paragraph 1.25(d) of the DP, the purpose of the CFFR of the IASB, 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 CFFR of the IASB 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 CFFR of the IASB and some particular IFRS or interpretation.

Finally, many believe that the use of the CFFR as the basis for the development of individual standards that do not violate such CFFR promotes a principles-based approach and minimizes the use of rules in individual standards. In the absence of guidance on any particular accounting issue, we believe the CFFR should always be used and followed.

The members of the TWG are divided in their assessment as to whether the CFFR should remain as it is today or whether the CFFR should be elevated to the highest level of hierarchy in IFRS. While all agreed that the number of inconsistencies or conflicts between the CFFR and individual standards should be minimized, the majority 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 existing hierarchy is the potential for preparers to come to different conclusions and interpretations regarding the application of individual standards of IFRS, which significantly impairs the transparency, consistency and comparability of financial information. Additionally, they argue that the CFFR 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 CFFR;
- identifying existing conflicts or inconsistencies between the CF and individual standards;
- proposing amendments to either the CFFR 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 -

The primary concern of those in favor of changing the existing hierarchy is the lack of consistency between some individual standards and the CFFR. These members believe that with an adequate and properly supported CFFR, it is practically impossible to justify an inconsistency in order to meet the overall objective of financial reporting.

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 CFFR currently exists. Rather, they believe that going forward, the issuance of a standard or an interpretation that is inconsistent or in conflict with the CFFR 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."

Some have argued that in those rare cases where the IASB, for good reasons, decides to issue a new or revised standard that conflicts with some aspect of the CFFR, the IASB should simultaneously initiate a review of the specific section of the CFFR to determine whether or not an amendment to the CFFR should be made to eliminate the conflict.

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 should be eliminated as soon as possible either through an amendment or improvement of a particular standard to conform to the CFFR, with the individual standard continuing in force in its entirety until amended, or an amendment of the CFFR. 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 CFFR.

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?

There is general support for the revised definitions of assets, liabilities and economic resources. Most believe that the proposed new definitions are clearer and more precise and will avoid many of the inconsistencies that currently exist between the CFFR and individual standards.

However, two countries oppose the changes in the existing definitions. One country believes that the definition of an *economic resource* is too broad and ambiguous, and as a result it could lead, for example, to the recognition of certain internally generated intangible assets that are clearly prohibited by IFRS. Another country believes that the term *economic resource* is limitative and for some suggests only resources that have market value. That country would prefer just the term *resource*, which could include resources that are financial, material, intangible or human.

Accordingly, if the new definitions are retained, those opposing the proposed new definitions would like to see more robust guidance regarding the consideration of *outcome uncertainty* to ensure that only assets and liabilities that provide relevant financial information are recognized.

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?

We found general support for the proposals, considering the distinction between *existence uncertainty* and *outcome uncertainty* to be clear and adequate. However, once again the countries opposed to the new definitions are concerned that removal of the notion “that an inflow or outflow of economic resources is expected” from the definitions could create confusion and result in the recognition of excessive assets and liabilities that contribute little or nothing to the overall quality of financial information. While they understand the distinction between *existence uncertainty* and *outcome uncertainty*, they believe such definitions are insufficient to ensure they are appropriately and consistently applied. Accordingly, they prefer to retain the existing reference to probability in the definitions.

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?

All but one of the countries participating in this TWG had no additional comments on these items, considering it unnecessary to identify elements for the financial statements mentioned in Question 4.

One country takes issue with the preliminary view expressed in paragraph 2.50 of the DP. That country believes that it would be very beneficial if the CFFR defined separate elements of the statement of comprehensive income and not just rely on the presentation guidance in Section 8 of the CFFR. It believes that such definitions would greatly assist in differentiating items in profit and loss from items in other comprehensive income (OCI).

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 found unanimous support for the preliminary conclusion to retain the existing definition of a constructive obligation, considering the existing guidance to be sufficient. On the other hand, some find the concept of *economic compulsion* difficult to understand and would definitely like more guidance in this regard.

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.

Our constituents unanimously expressed a preference for View 2 with respect to the definition of a present obligation, i.e. that a present obligation must have arisen from past events and be practically unconditional, i.e. that the entity does not have the practical ability to avoid the transfer through its future actions. One country recommends that the individual standards provide examples of what practically unconditional means for the specific liability under discussion, thereby reducing different conclusions for similar obligations to a minimum.

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

All but one of the countries participating in this TWG had no additional comments on any of the other guidance in this section.

One of the countries that is concerned that removal of the notion "that an inflow or outflow of economic resources is expected" from the definitions of assets and liabilities is also concerned that the proposed changes to the existing definitions will create new differences with US GAAP and represent a new obstacle to the process of convergence. Consequently, this country believes that the proposed changes should be made and that efforts should be made to recommend that the FASB amend its own CFFR.

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?

All but one of the countries participating in this TWG agree with the proposed recognition criteria, considering them to be clear and adequate.

One of the countries that challenges the new definitions of assets and liabilities in our response to Question 2 comments that if the existing definitions are retained, this discussion would be unnecessary.

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?

All but one of the countries participating in this TWG agree with the proposed derecognition criteria, considering them to be appropriate.

Additionally, the same country believes that the CFFR should include general guidance on the approach to use when an entity retains a component of an asset or a liability, without impacting the specific guidance included in individual standards.

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?

In general we found unanimous support for the preliminary views regarding the definition of equity and distinction between liabilities and equity instruments, considering them to be correct and not in need of any change.

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 found unanimous support for the preliminary views regarding the objectives and selection of an appropriate measurement of components of the financial statements. There is strong support for a mixed measurement model since we agree that a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements.

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.

In general, we found strong support for the preliminary views regarding the subsequent measurement of assets, considering them to be correct and appropriate for the selection of a measurement basis that provides the most relevant information.

Nevertheless, one country believes that current replacement cost should be added to the option of the cost-based model in those cases where ultimate future cash flows are influenced by changes in replacement costs. That country argues that when the cost of raw materials is so significant to the total cost of the related finished goods such that the selling price of the inventory is influenced by changes in replacement cost of the raw materials, measurement of those raw materials at replacement cost would be more appropriate.

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 found unanimous support for the preliminary views regarding the subsequent measurement of liabilities, considering them to be correct and appropriate.

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 (ie the asset or the liability is highly leveraged). Do you agree with this preliminary view? Why or why not?

We found unanimous support for the preliminary views regarding the measurement of some financial assets and financial liabilities, considering them to be totally consistent and aligned with the guidance found in IFRS 9, *Financial Instruments*.

Question 15
Do you have any further comments on the discussion of **measurement** in this section?

None of our constituents have any additional comments on the discussion of measurement in Section 6.

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*.

All but one of the countries participating in this TWG expressed support for the preliminary views regarding the scope and content of presentation and disclosure guidance that should be included in the CFFR, considering them to be consistent with IAS 1 and excellent general guidance on the presentation of financial statements.

The dissenting country believes that all of these topics are adequately addressed in existing IFRS.

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?

We found unanimous support for the preliminary views regarding no need to expand or modify the discussion of materiality in the existing CFFR.

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?

All but one of the countries participating in this TWG expressed support for the preliminary views regarding the form of disclosure requirements, including consideration of the addition of communication principles to the CFFR.

The dissenting country believes that the disclosure objectives and the minimum items to be disclosed are adequately addressed in the existing individual standards.

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 revising particular Standards?

We found unanimous support for the preliminary conclusion to continue to require a total or subtotal profit or loss in the statement of comprehensive income, considering net profit or loss to be the best manner of communicating the primary picture of the entity's return produced on its resources.

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, ie **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?

We found unanimous support for the preliminary view that the CFFR should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss (recycled). All believe that if the appropriate timing for recycling is clear and well supported, recycling should be permitted or required to impact future results on a timely basis.

However, some of our constituents believe that there are limited situations, as in the example for employee benefits mentioned and explained in our response to Question 21, where it is not necessary to recycle certain items of OCI. On the other hand, others believe that all items of OCI should ultimately be recycled.

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.

Our constituents are divided as to whether the narrow or broad approach to OCI is the right answer. There are strong supporters of both approaches.

We found unanimous support for the preliminary view that presenting in OCI items of income or expense resulting from cost-based measurements would not enhance the relevance of profit or loss. Consequently, we agree with the IASB's preliminary view that the use of OCI should be limited to items of income or expense resulting from changes in current measures of assets and liabilities (remeasurements).

However, those in favor of the narrow approach argue that all remeasurements must be recycled since failure to recycle an item of OCI to profit and loss results in that item never impacting earnings per share, which is obviously based on profit and loss. Those supporting this view agree with paragraph 8.53 of the DP that if recycling would not result in relevant information in any subsequent period, such item of income or expense should not be eligible for recognition on OCI. Many argue that this is the case for remeasurements of the net defined benefit liability (asset) recognized in OCI pursuant to paragraph 120(c) of IAS 19, *Employee Benefits*, which pursuant to paragraph 122 of IAS 19 are not recycled; accordingly, they believe that remeasurements of the net defined benefit liability (asset) should be recognized directly in profit or loss.

On the other hand, those in favor of the broad approach accept the IASB's argument in the DP that recycling all types of items recognized in OCI will not always provide useful information. This group believes that if (1) the appropriate timing for recycling is unclear, (2) recycling does not contribute useful information, and (3) not recycling does not represent a relevant omission from future results, it is preferable to not recycle.

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*.

All but one of the countries participating in this TWG expressed support for the preliminary views regarding the treatment of the concepts of stewardship, reliability and prudence in the CFFR.

The dissenting country believes that the concepts of *reliability* and *prudence* represent basic principles of financial information and that their implied inclusion in the concept of faithful representation is not clear and is insufficient. From the significant role that reliability had in the preceding CFFR, it now has a secondary role within faithful representation, which fails to communicate the significance this concept has for the user of financial statements. Similarly, the dissenting country does not share the IASB's concern that the inclusion of prudence as a separate and distinct characteristic of financial information would necessarily lead to an excess of conservatism, resulting in the understatement of assets and the overstatement of liabilities. If such concern persists, the country believes that could be addressed and controlled with additional clarity on the definition of the concept.

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?

We found unanimous support for the preliminary view that the financial statements can be made more relevant if the IASB considers, when developing or revising particular standards, how an entity conducts its business activities. This concept is highlighted in the IFRS 9, *Financial Instruments*, and we believe it could also be very useful in other standards. However, we believe it may be necessary to define the concept of *business model* to facilitate its universal application in all areas of financial reporting, and not just for financial instruments, whose classification clearly depends on the business model.

We find the definition of a business model proposed by the International Integrated Reporting Council (included in paragraph 9.29 of the DP) to be adequate and consistent with other definitions we have seen. Nevertheless, we recommend certain changes and propose the following definition:

> *The business model is the chosen system of inputs, business activities, outputs and outcomes that aims to create, deliver and capture value over the short, medium and long term.*

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 found unanimous support for the preliminary view that the unit of account will normally be decided when the IASB develops or revises individual standards. We believe it would be practically impossible to contemplate all of the specific aspects of individual accounts within the CFFR.

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?

We found unanimous support for the preliminary view that the three situation in which the going concern assumption is relevant are all inclusive. We believe that all specific situations we identified that raise questions about the going concern assumption fall within the three identified areas.

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.

All but two of the countries participating in this TWG expressed support for the preliminary views regarding the IASB's preliminary view to include the existing descriptions and the discussion of capital maintenance concepts in the revised CFFR largely unchanged until such time as a new or revised standard on accounting for high inflation indicates a need for change.

The dissenting countries believe that the concept of *physical capital maintenance* is only serves to confuse the concept of capital maintenance and such concept is largely irrelevant in the application of individual standards. They also believe that the use of the concept of physical capital maintenance would require the use of current costs for all items, which is not allowed under many existing standards.

Additionally, the dissenting countries believe that the concept of capital maintenance should not be assimilated within the accounting for inflation. The accounting for inflation addresses units of measurement and not capital maintenance.

Additional comments

As a result of the discussion of elements of the financial statements in Section 2, and in Section 5 regarding the definition of equity and the distinction between liabilities and equity instruments, two countries represented in the TWG believe that a separate comprehensive standard on equity should be considered by the IASB, in which the definition of and accounting for all types of components of equity could be addressed. Such a standard would greatly assist with the distinction between liabilities and equity instruments addressed in Question 10.

Additionally, one of the countries believes that existing standards could be clearer in this area, particularly in the case where an obligation between related parties does not have clearly established conditions and dates for repayment.