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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
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Dear Mr Hoogervorst,

The Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, appreciates the opportunity to comment on the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

Principal authors of this comment letter were Otto Altenburger, Max Eibensteiner, Klemens Eiter, Leopold Fischl, Christian Gross, Erich Kandler, Christoph Krischanitz, Gerhard Prachner and Alfred Wagenhofer.

GENERAL REMARKS

Overall, we see the Exposure Draft (ED) as a well-balanced document that incorporates many useful principles and concepts as a basis for IFRSs.

The purpose of the Conceptual Framework is threefold (paragraph IN1): (a) to assist the IASB to develop standards; (b) to assist preparers to fill gaps in standards or to choose from among different accounting policies; and (c) to assist all parties to understand and interpret standards. We believe that some of the principles are of more importance to the standard setter than for preparers. We suggest, therefore, that it should be clearly stated in the Framework which principles or guidance apply only to the standard setter, and thus are only of limited relevance for preparers.

CHAPTERS 1 AND 2—THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING AND THE QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

Question 1—Proposed changes to Chapters 1 and 2
Do you support the proposals:

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

Why or why not?

(a) We support the inclusion of management's stewardship within the objective of financial reporting. However, some issues arise in connection with the way stewardship is introduced in the ED.

Assessment of stewardship is considered as forming part of decision usefulness. However, the Board appears to assume that the same accounting information can serve all purposes equally, i.e., in assessing the return of equity and debt instruments and providing relevant information about loans and other forms of credits, while at the same time providing a basis for assessment of management's stewardship of the entity's resources. We think accounting information sometimes serves one of these purposes better than others. Stewardship issues may affect the way in which events are included in performance measurement, since management is, e.g., responsible for making judgments and may be optimistically biased. However, a transaction may not be exceptional or the result of unfavourable changes in economic factors outside the control of management, even if an optimistically biased manager could come to this conclusion. We understand that it is difficult to distinguish transactions controllable by management from those beyond its control, but this difficulty should not prevent recognition or disclosures where knowledge of the transaction's effect would be for the benefit of capital providers.

Potential consequences of acknowledging differences in the information requirements for decision usefulness and stewardship may be important when choosing between different measurement bases, but are more likely to require additional disclosures. For example, there are several disclosure requirements in current IFRSs that may be of little relevance to investors because they are not material in amount, but are important for stewardship, such as related party transactions or

share-based payments. We would appreciate a broader discussion of such points and potential consequences for standard requirements.

(b) We strongly support the reinstatement of prudence in the Conceptual Framework. The newly proposed definition of prudence refers to “the exercise of caution when making judgements under conditions of uncertainty” and is meant to be understood as part of neutrality (paragraph 2.18; term “cautious prudence” in the Basis for Conclusions (BC2.9 f.)). This is in our view questionable because, prior to this ED, most of those involved have understood prudence as asymmetric, with losses being recognised more readily than gains. This is in line with what the ED labels “asymmetric prudence” (BC2.11 f.). The ED proposes to include cautious prudence in paragraph 2.18 but rejects asymmetric prudence, since the latter is in conflict with neutrality. We disagree with this decision, but we agree with many arguments in the BC that are related to prudence.

We are unable to identify what effect cautious prudence may have on financial reporting. Paragraph BC2.9 argues that it may help counter a natural bias that management has towards optimism, which is in our view consistent with asymmetric prudence because it requires that assets and liabilities shall not be treated symmetrically. Further, paragraph BC2.13 suggests that neutrality does not prevent, e.g., writedowns and the immediate expensing of some assets. Conversely, neutrality does not require measurement of all assets and liabilities at fair value. If the IASB argues that to counter a presumed bias by management it may develop standards with asymmetric accounting methods, then it accepts that the outcome of the reporting process should be neutral, not necessarily the accounting methods themselves. If this is the case, it would be helpful to say so in the main text of the Framework, and not provide a detailed discussion only in the Basis for Conclusions. In our view, paragraph 2.18 is void of any particular effect and apparently rules out asymmetric accounting methods.

We do not understand the term “cautious prudence” itself. The use of the term “prudence” is in our view not necessary when referring to “the exercise of caution when making judgements under conditions of uncertainty” (paragraph 2.18). The definition seems more reliant on the term “caution” than the term “prudence”. Hence, it is not clear to us why the term “prudence” is even needed and used in its current form in the newly proposed Framework.

We disagree with including prudence as a characteristic of neutrality. Neutrality – as discussed in BC2.7 and BC2.8 – refers to accounting policies applied as a whole and requires them to be neither “optimistic” nor “pessimistic”; prudence is related to making judgements on specific issues. The ED regards “cautious prudence” as a reminder to managers to recognise gains with an equal probability to losses. However, this seems to be implied by “neutrality” itself, which is already included in the criterion of faithful representation. We do not understand BC5.45, which seems to suggest that the Framework is silent on applying a symmetric approach for the recognition of income and expenses. Similarly, BC6.57 suggests that the IASB may set asymmetric threshold levels of tolerable uncertainty for assets and liabilities.

We propose that prudence be reintroduced as defined in the Framework of 1989. This means that prudence is another characteristic of faithful representation in addition to neutrality, and it means acknowledging that these two characteristics may contradict each other, so that the IASB has to

trade off the two in developing IFRSs. There are many other occasions in which similar trade-offs have to be made. Moreover, it should be made clear – again, in accordance with the 1989 definition – that while the trade-off between prudence and neutrality is relevant for standard setters, it should not be used by preparers as a justification of deliberate under-valuations or over-valuations.

Many IFRSs include requirements linked to asymmetric prudence, including standards such as IAS 2, IAS 16, IAS 36, and IFRS 15. We find it conceptually difficult to have a Framework that does not allow for asymmetric prudence, when many – perhaps even the majority – of the current IFRSs require it. Moreover, we consider cost-based measurement (including impairment) to be inherently asymmetric. That means that introducing asymmetric prudence as an exception to the Framework's principles is unconvincing. Including asymmetric prudence in the Framework is necessary to support other statements in the Framework (such as cost-based measurement) and it also provides a conceptual basis for including prudence in subsequent standards.

Alternatively, if neutrality and prudence aim at the application of standards, but not to the standards themselves, it would be useful to clarify this or move any characteristics that speak to the application to the standards level, e.g., to IAS 1.

(c) We agree. Financial statements must present the economic substance of transactions as distinct from their legal form.

(d) We support the explicit discussion of measurement uncertainty in paragraphs 2.12–13, and particularly the observation that there is a trade-off to be made.

We support the Board's intention of putting greater weight on a possible impact of measurement uncertainty on the usefulness of financial statements. Nevertheless, we think that it is not so much the characteristic of relevance which is affected but rather that of neutrality and/or prudence.

The last sentence of paragraph 2.13 states that "on the other hand a high level of measurement uncertainty does not prevent the use of an estimate if that estimate provides the most relevant information". This could be invoked to justify "any measure is better than no measure", which in our understanding is neither fully in line with neutrality (as the danger of bias is high) nor with prudence (especially when talking about assets). The stronger emphasis on measurement uncertainty is warranted in light of the broad definition of assets and liabilities.

(e) We accept the IASB's proposal that relevance and faithful representation are the fundamental qualitative characteristics. In prior comments, we have supported the reintroduction of reliability, but we think that with the discussion of recognition criteria in Chapter 5 (in particular, the low probability of a cash flow, and measurement uncertainty), our fundamental concerns are somewhat alleviated.

CHAPTER 3—FINANCIAL STATEMENTS AND THE REPORTING ENTITY

Question 2—Description and boundary of a reporting entity

Do you agree with:

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

Why or why not?

We generally agree with the principles set out in Chapter 3, and in particular the proposal to distinguish consolidated and separate financial statements on the basis of indirect control, which is in line with other principles. We suggest that paragraph 3.23 be amended by noting that separate financial statements serve debt capital providers, since the individual entity is usually the boundary for legal liability.

(a) We suggest adding the definition of the reporting entity as outlined in BC3.8 with reference to the discussion paper (RE2 and RE3), as without the criteria mentioned there the meaning of paragraph 3.11 is somehow self-referencing ("a reporting entity is a reporting entity"). We support the approach that a reporting entity does not necessarily have to be a legal entity; however, we also note that other cases are more an exception than the rule.

(b) We do not fully agree with the Board's proposal to give priority to consolidated financial statements as the primary source of useful information on the activities controlled by a reporting entity but think that the prioritisation depends on the specific use of financial statements. As outlined in paragraph 3.20, important information for users (such as dividend distributions, or the legal rather than the economic form of an organisation) is directly linked to the unconsolidated financial statement of the parent company. Hence, informational advantages of providing unconsolidated financial statements may prevail, even if both consolidated and unconsolidated reports are available. Accordingly, it might be appropriate to require these unconsolidated statements to be presented together with the consolidated financial statements. An alternative could be to add specific guidance on those items that are most often only available in unconsolidated financial statements to IAS 1 instead of to the Framework.

CHAPTER 4—THE ELEMENTS OF FINANCIAL STATEMENTS

Question 3—Definitions of elements

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

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

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

We suggest that the IASB explicitly discuss the issue of whether goodwill (regardless of whether it is internally generated or purchased) is an asset, whether components of goodwill are perhaps assets, or whether goodwill is not an asset. We believe this question is important and cannot be simply excluded from the Framework.

We find the discussion in BC5.35, which suggests that the recognition of internally generated goodwill is "unnecessary to meet the objective of financial reporting", unconvincing. On the implied assumption that goodwill is an asset, information about, say, the fair value of internally generated goodwill would still provide relevant information about the fundamental value of the entity (e.g., if its shares are not listed). However, we accept that it is difficult to come up with a faithful representation of internally generated goodwill (even though the missing 'reliability' criterion makes this discussion more contested); therefore, we would still agree with keeping it unrecognised.

(a) We agree with the Board's definition of an asset and welcome the elimination of the term "other source of value" in the related definition of an economic resource as it sets a reasonable limit to the search for what could constitute an asset. Nevertheless, we miss a closer tie between the asset and the reporting entity holding it. An item might in principle have the potential of generating economic benefits, but only in a specific economic, political, or social environment, which may not obtain for a given reporting entity. The IASB should make clear that for the purposes of the Framework the term 'has the potential' should always be assessed from the point of view of the specific entity. Conceptually this would support the obvious intention to align (and mirror) the definition of assets and liabilities, as a liability is always deemed to be an obligation of the reporting entity and not an item that has the potential (for whoever) to be an obligation.

(b) In principle we agree with the definition of a liability in the ED. However, we are of the opinion that the paragraphs related to the lack of practical ability to avoid a transfer need further clarification.

Paragraph 4.32 is very restrictive as far as constructive obligations are concerned, and does not appear to be fully consistent with paragraph 4.34, which specifically deals with such obligations. The

former states that only in cases where a non-fulfilment will lead to ”significant business disruption” or “economic consequences significantly more adverse than the transfer itself” would an obligation be recognised, whereas the latter puts emphasis on “practices, policies or statements that require the transfer of economic resources” (which allows for a broader range of liabilities). We support a broader view on liabilities and as a consequence propose combining the ideas in the two paragraphs, e.g., in the following way:

“An entity has no practical ability to avoid a transfer if:

1. such a transfer is legally enforceable or

2. if avoiding it would be inconsistent with the entity’s past practices, published policies or statements made and another party could validly expect the entity to transfer an economic resource.”

We suggest paragraphs 4.25 and 4.26 be eliminated, as they do not enhance the understanding of the definition and may even be contradictory (e.g., if one party has a liability some other party must have an asset, but the asset need not be recognised). This consequence of the symmetrical definition of assets and liabilities is something we reject (see also above). As explicitly explained in BC4.78, a constructive obligation would mean that another party would have a (contingent) asset, which in turn means that if the counterparty does not have an asset the recognition of a constructive obligation is questionable.

(c) We accept the Board’s intention to retain the existing definition of equity as being the residual interest in the assets of the entity after deducting all its liabilities.

As a matter of fact and due to the mixed measurement model, this is the only approach currently consistent with IFRSs in place. We suggest that the Board makes further attempts to clarify the nature of specific components (such as hybrid and mezzanine capital). This could be achieved, e.g., by focussing on the provision of external funds, as precisely such transactions trigger most of the discussions of the distinction of equity from liabilities. We are aware that this might lead to a more rules-based approach; however, such an exception to the Board’s principles-based approach could be acceptable if it successfully resolved this long-lasting discussion. We accept the decision of the IASB not to further develop the distinction between equity and liabilities in the Framework project, and to study the issue in a research project. However, we urge the IASB to view this research project as fundamental, in the sense that the outcome should also be an amendment to the Framework.

(d) We agree. Linking income and expenses to changes of assets and liabilities with a corresponding effect on equity is the underlying principle of proper accounting.

Question 4—Present obligation

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

We agree.

As we discuss in our answer to question 3(b), we favour a definition of a constructive obligation that is in line with the current IAS 37 definition. The Board refers to this in the BC, however, resulting in a circular argument: BC4.69 states that "The IASB views this concept [here, the IASB refers to having no practical ability to avoid the transfer] as being broadly consistent with the existing IAS 37 definition: another party could validly expect the entity to transfer an economic resource only *if the entity has no practical ability to avoid the transfer*" (emphasis added). We suggest eliminating the circular reference at the end. In a sense, this relatively broad definition of a present obligation produces a result that comes closer to a matching process, which apparently lies at the core of some of the discussions.

BC4.3(e) rejects matching of expenses to income. However, in some instances a particularly broad interpretation of assets and liabilities is needed to support a desired outcome that easily follows from matching. We note that time-dependent accruals are difficult to classify as either assets or liabilities; this works only if the resources that flow from them are very broadly defined. For example, the time-continuous flow of services in IFRS 15 may be viewed as such a case. Another example are levies, which are – strictly speaking – a liability only after the entity has fulfilled the criteria that give rise to the obligation to pay; here it is the practical ability to avoid the transfer that extends the definition of a liability to lead to a result that would easily follow from applying matching.

Question 5—Other guidance on the elements
Do you have any comments on the proposed guidance?

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

We understand that the definition of the unit of account is difficult and we are generally happy with the discussion in paragraphs 4.57–63. However, in our view the unit of account is important for many other issues in the Framework and it should be dealt with more prominently.

For example, it would be helpful to discuss (i) how the unit of account relates to assets as a bundle, rights in general, or specific rights that are linked to (say) ownership, (ii) how the unit of account relates to the components approach (IAS 16), and what happens if the unit of account changes, e.g., due to conversion in a production process (does that lead to the realisation of profits?).

We recommend clarifying in paragraph 4.62 whether the conditions in subsections (i)–(iv) have all to be fulfilled. For example, in relation to the component approach as currently defined in IAS 16, conditions (i) and (iii) might lead to different conclusions (different units of account), depending on whether the requirement is for both to be satisfied. If both criteria must be fulfilled, this would lead to a much higher granularity of property, plant and equipment than if the preparer has the option to judge which of the criteria has the higher impact on the relevance of information provided.

CHAPTER 5—RECOGNITION AND DERECOGNITION

Question 6—Recognition criteria

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

The recognition criteria in the ED are basically restatements of the qualitative characteristics and do not contain much additional guidance.

We note that recognition cannot be discussed for all elements of financial statements independently, because these elements are systematically related, in that the recognition of assets and liabilities will give rise to income and expense components.

In the discussion of relevance (paragraphs 5.15–21), we suggest also discussing aggregation. For example, aggregating high and low probability cash flows or relatively certain with highly uncertain items in one position would probably reduce the relevance of the total. BC5.43(a) suggests that including an unreliable (note that the term "reliability" is used here) estimate may obscure financial performance or corrupt communication. We believe considering the effect on overall performance might help to capture such effects in a principles-based way.

In general, we agree with the recognition criteria in paragraph 5.9. However, we think that the apparently equal weight given in 5.9(a) to relevant information, 5.9(b) faithful representation, and 5.9(c) cost exceeding benefits does not take sufficiently into account that the benefits vs. costs criterion does not focus on the informational effect with respect to investors, but depends on the characteristics of an entity.

Paragraph 5.10 states that "judgement is needed": it might be useful to make it clear that what is meant is judgement by the Board when developing new standards rather than preparers' judgement in applying standards. Otherwise preparers might have too much leeway when assessing whether a piece of information is useful or not.

We welcome the Board's attempt to provide further guidance on when to recognise an item in the reporting entity's financial statements. The criteria in paragraph 5.13 are useful as partial compensation for the removal of the probability criterion in the definition of assets and liabilities.

We suggest that paragraphs 5.15 and 16 – both dealing with existence uncertainty and separability –should be included in Chapter 4. Where no item satisfies the criterion in paragraph 5.13(a), recognition would not be possible in the first place.

Question 7—Derecognition

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

We agree with the basic approach, to link derecognition to the loss of control of an asset or to the

fulfilment/transfer of an obligation as explained in paragraph 5.25. If control is understood in the sense of IFRS 10, the risk-and-rewards approach is covered by an investor's "exposure, or rights to variable returns from its involvement with the investee". "Variable returns" can stand as short for an investment's risks and rewards.

The critical issue that might generate conflicts between the "assets and liabilities retained" (paragraph 5.26(a)) and the "impact of the transfer" (paragraph 5.26(b)) is the unit of account of the retained portion. It seems in some sense contradictory to say that the retained component becomes a separate unit of account but that no income or expense shall be recognised on this retained asset or liability (paragraph 5.27(b)). If the exposure to variable returns is increased or decreased as a result of the transaction (e.g., a change in the fair value of a financial instrument due to a changed risk profile) this change should be reflected in the statement of financial performance.

Finally, we suggest clarifying the wording in paragraph 5.29 by replacing the term "economic resource" by "an asset or a liability" because the term "economic resource" is commonly understood as referring to assets only.

CHAPTER 6—MEASUREMENT

Question 8—Measurement bases

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

(a) We agree with the general approach that distinguishes between two measurement bases only, and also with the principle that different measurement bases may apply to some assets and liabilities.

However, we note an important difference between measurement bases as they are discussed in this section of the Framework and the way they are usually understood: Historical cost is adopted for consumption and impairment (in consumption), but not for changes in prices (paragraph 6.6). This means that measurement at cost as it is used in many IFRSs is not the same as historical cost, but a mixed measurement between historical cost and current value (in the form of value in use or fulfilment value), where the latter is relevant if the item is impaired. We suggest that a clarification should be included in the Framework.

(b) We agree in general with the characterisation of the measurement bases and, particularly, the description of historical cost as a means to reflect changes in the capacity of the assets they reflect (and depreciation and impairment as proxies for consumption of the resources).

We welcome the Board's clarification with respect to adjustments needed when calculating the fulfilment value of an entity's liabilities, thereby eliminating the effect of the risk of non-performance by the reporting entity. It is indeed counter-intuitive to decrease an obligation in the case of an increased risk that the entity will not perform and vice versa. We suggest reconsidering the guidance in paragraph 6.35(b), which states that it *may sometimes* be appropriate to exclude from the fulfilment value the possible non-performance of the entity. Given the going concern assumption (paragraph 3.10) we believe non-performance should not be part of the fulfilment value (although we acknowledge that non-performance may not be equivalent to liquidation). Paragraph 6.41 is consistent with this view.

We suggest adding a further benefit of historical cost measurement in paragraph 6.17, which is that it reflects the transaction the entity actually made, even though it can reduce comparability, in the sense that similar assets are measured differently at a certain point in time.

A reference to capital maintenance might help support the argument as to why current cost is not considered as a separate measurement basis and would amplify the analysis provided in

paragraph 6.18. In particular, BC6.23 indicates that the IASB is unlikely to consider current cost, which rules out real financial capital maintenance and physical capital maintenance.

Paragraph 6.45 states that it may be impossible to determine the value in use for groups of assets used in combination (the CGU theme). We suggest acknowledging in the fair value analysis that synergies are also an issue with fair value measurement – whether synergies are included or not ultimately depends on the unit of account. Moreover, if an asset is measured at level-3 fair value, a similar issue arises as with value in use.

We disagree with paragraph 6.67 that "at initial recognition, the cost of an asset or a liability is normally similar to its fair value at that date, except if transaction costs are material." Entities may have reasons for buying assets other than market values, which could result in differences between actual cost and fair value.

Question 9—Factors to consider when selecting a measurement basis

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

We agree in general with the factors identified in the Draft Framework – in fact, they derive from the two qualitative characteristics and the cost constraint, so the analysis is coherent and consistent. However, simply referring to the qualitative characteristics of financial reporting may not be enough to provide a sufficient foundation for selecting one measurement basis over another. Hence, more guidance would be appreciated.

We suggest adding the business model as an additional criterion for selecting a measurement basis. We believe the business model determines what information investors predominantly need to know about an entity, so this should be reflected in the measurement basis.

We agree with the view that initial and subsequent measurement should be linked. But we regret the omission of a discussion of the interrelation between the unit of account and the continuity of the measurement basis. For example, consider a manufacturing entity that purchases raw materials, which are presumably measured at historical cost. Conversion of these materials to finished products changes the nature of the asset, so it appears that the finished product is a new unit of account; at that point, the measurement basis could change because the newly created unit of account is initially measured. From a business model perspective, finished products generate cash flows through sales, so they would presumably be measured at fair value. As another example, suppose an asset is measured at fair value, then a sale transaction leads to a loss in the amount of direct selling costs. It would be useful to add guidance on such transactions. We note that BC6.37 mentions that the IASB could decide to require fair value less costs to sell as a measurement: we believe that such an exception contravenes the principles of fair value measurement.

We support the consideration of the key factors when selecting a measurement basis, especially those outlined in paragraph 6.54. It strengthens the case for the business of the reporting entity ("how [an] asset or liability contributes to future cash flows") playing a significant role in choosing a measurement basis; i.e., measurement bases could change if an asset is, e.g., used in the

production process or the provision of services (which would both indicate the use of historic costs) or by sale (which would trigger a measurement based on current value). We also agree with the criterion included in paragraph 6.54(b), which links a greater exposure to market factors to current value, while a low exposure would allow for a measurement based on historic cost. What remains to be done by the IASB in practical standard-setting activities is to trade the two factors off against each other (in IFRS 9 for example, the business model has the lead when it comes to measurement).

Question 10—More than one relevant measurement basis

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

We agree in general with the approach outlined in the Draft Framework. In particular, we agree with the establishment of a conceptual basis for OCI as a gathering point for "bridging items". We note that in some cases the use of different measurement bases may improve the decision usefulness. We also refer to our comments on the profit-or-loss-or-OCI questions below.

We suggest adjusting the wording of paragraph 6.76: In its current form, it suggests a current value measurement basis for the asset or liability and "a different measurement basis" to determine the income or expenses. Because there are only two measurement bases, the "different measurement basis" must be historical cost. That should be made explicit.

We do not see a benefit in discussing cash-flow-based measurement techniques in the Appendix (A1–A10). We believe there is a general acceptance of cash-flow-based measurement and suggest eliminating the Appendix completely. If such an Appendix were included, one might question why other techniques (e.g., depreciation methods) were not considered as well.

CHAPTER 7—PRESENTATION AND DISCLOSURE

Question 11—Objective and scope of financial statements and communication

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

We agree with the objective and scope of financial statements.

With respect to presentation and disclosure objectives and principles, we suggest either eliminating the – currently quite selective – explicit mention of principles in paragraph 7.18 or including more principles, such as avoiding complex statements, requiring clarity and understandability, choosing "plain" language, perhaps a minimum disclosure requirement, the management approach, and the like. We also suggest amending this part of the Framework by considering insights gained in the Disclosure Initiative. Principles developed in the Initiative should be incorporated.

Question 12—Description of the statement of profit or loss

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

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

We welcome the Board's attempt to make progress in the animated discussion of presentation of income and expenses in either profit and loss or other comprehensive income.

In practice, other subtotals such as EBIT are often used, and we suggest discussing such subtotals as well.

We do not agree with the description of the statement of profit or loss as including "a total or subtotal for profit or loss" (paragraph 7.19(a)). Conceptually, whether profit or loss is a total or subtotal is important to determine whether recycling should occur or not. Our understanding is that profit or loss is "the" total measure of financial performance, but not a subtotal. If it were a subtotal – with the total being comprehensive income – then recycling should never occur.

We do not see where the purpose of the statement of profit or loss in paragraph 7.20 is derived from. It appears to capture only part of the return or unrealised return, depending on which measurement basis is used. Paragraph 7.20(b) is consistent with the objective of financial reporting as set out in Chapter 1.

We disagree with introducing a "rebuttable presumption" (in this case that all income and expenses go into profit or loss) instead of stating this as a principle to which there can be exceptions. We interpret a rebuttable presumption as weaker than a principle, as it would be easier to find reasons to rebut. We do not think that a distinction between rebuttable presumptions and principles makes sense in the Framework.

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

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

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

While we understand that other comprehensive income is currently embedded in many standards, we want to point out that the conceptual underpinnings for the separation of profit or loss and other comprehensive income remain unclear in many cases. Hence, we would welcome a general discussion about the necessity to separate the presentation of income and expenses into these two categories.

We understand the wording in paragraph 7.20 ("[…] to: (a) depict the return that an entity has made on its economic resources during the period; and (b) provide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources") as being related to financial and operating performance (paragraphs 7.20(a) and (b)) of an entity. In short, we think that the Board uses the profit or loss and other comprehensive income distinction to separate income and expenses related to an entity's *performance* from other income and expenses components. We agree that presenting a firm's income and expenses related to performance separately from other income and expenses components is likely to strengthen decision usefulness of financial reports. Hence, we think that the rationale for segregating different forms of income and expenses into the statement of profit or loss and other comprehensive income could explicitly be based on the notions of performance versus other income and expense items. However, we acknowledge that it is unlikely that a "single characteristic can be used to separate items of income and expenses usefully into two clear-cut categories, with all items within one category sharing the same characteristic", particularly given "that there are many facets of an entity's financial performance"(BC7.34).

We believe the wording of paragraph 7.23(b) is difficult to understand; for example, the phase "if the components are separately identified" leaves open the question of who identifies these components.

We disagree with the criteria used to determine whether, and which, items are presented in OCI. Paragraph 7.24 lists both (a) the classification of income and expenses as bridging items and (b) an argument based on the relevance criterion as possible rationales for including income and expenses in OCI rather than in the statement of profit or loss. We disagree with reason (b), because it is not sufficiently clearly specified, but could be used to individually include or exclude particular items and effectively make OCI the "dumping ground" for undesirable income and expense components. This course of action would only make OCI less conceptually sound and harder to interpret. Therefore, we recommend classifying only bridging items into OCI.

Question 14—Recycling

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

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

From a conceptual point of view, the issue of recycling depends on whether one views profit or loss or comprehensive income as “the bottom line”, i.e., the main measure of performance. We argue that profit or loss is the main measure, and so does paragraph 7.21 of the Framework: “income and expenses included in the statement of profit or loss are the primary source of information about an entity’s financial performance”. If this is the case, all income and expense components accumulated in OCI should ideally be differences between the statement of financial position and profit or loss, and all components of OCI should be recycled. Alternatively, if one were to consider comprehensive income as the bottom line, profit and loss would be a subtotal, and there should not be any recycling of OCI into profit or loss. In both cases, the clean surplus principle holds for the bottom-line measure. On the assumption that profit or loss is the bottom line, we support the principle that all OCI should be recycled.

We acknowledge that there are cases in which it is difficult to determine how much of the aggregated OCI should be recycled. (e.g., actuarial gains and losses under IAS 19). However, this should not preclude full recycling—otherwise the principle of clean surplus is violated. For example, there might be methods to estimate an amount that is recycled if the position is closed.

As stated above, we support the idea that all income and expenses go into profit or loss and would only allow exceptions to recycling in rare cases. However, we believe that this idea should be formulated as a principle and not as a rebuttable presumption.

OTHER QUESTIONS FOR RESPONDENTS

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

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

In general, we think that many preparers and users are very interested in an analysis that highlights effects of the Framework changes. BCE.1–BCE.31 focus on this issue and provide an introductory analysis.

We were unable to arrive at a consensus view on this introductory analysis. One view is that this analysis should be eliminated altogether, because it could imply that the IASB plans in the near future to amend the standards and interpretations that are listed as inconsistent with the Framework. The list is also not very helpful because the IASB did not conclude what the outcome of dealing with inconsistencies would be. A different view is that the list of inconsistencies is incomplete and should also include intangibles, provisions, and other items.

Question 16—Business activities

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

We believe a definition of what is meant by “business activities” or, better, a “business model” should be included in the body of the Framework because it is an important concept that affects several accounting requirements. Giving more prominence to the business model of a reporting entity in its reporting can enhance the relevance of financial statements under specific circumstances, particularly if the differences in business models are linked to competitive advantages. Reflecting different business models could reduce comparability of financial statements if similar items are accounted for differently; however, we believe that the alternative – that different items (in terms of how they generate future cash flows) be accounted for similarly – is even more worrisome.

Not mentioning business activities and their effects on accounting requirements could be viewed as the IASB wanting to leave this issue open, even though it potentially affects measurement issues in many reporting standards, particularly the determination of applicable measurement bases (e.g., using or selling an asset).

We think that the greatest use of financial reporting based on business activities can be made by defining the structure and requirements of the notes to the financial statements. The reporting entity should have sufficient discretion to put more emphasis on the key success factors and prioritise these factors over other reporting items.

Question 17—Long-term investment

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

We agree. Reporting standards should correctly reflect the nature of business activities as geared to long-term and short-term goals. The questions as to whether and how long-term business goals should prevail over short-term profit maximisation must be decided in the political sphere, and are not directly related to accounting standard setting.

Question 18—Other comments

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

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

Although we understand that the IASB does not ask for comments on capital maintenance, i.e., on Chapter 8 of the Framework, our view on the proposal to simply take over the Chapter from the previous version of the Framework is that the Chapter does not fit in with the rest of the Draft Framework – either in content or in form – because it is clearly outdated.

We see two alternative possible courses of action: (i) the development of a new chapter on capital maintenance, or (ii) the elimination of the current Chapter 8. Given the time frame for the Framework, we believe option (ii) is the easier solution. Therefore, we recommend elimination.

Kind regards,

Romuald Bertl,

Chairman