



Mr Hans Hoogervorst  
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Ref.: ACC/PFK/HBL/PPA/VRA

Dear Mr Hoogervorst,

**Re: FEE comments on IASB Exposure Draft “Conceptual Framework for Financial Reporting” (ED/2015/3)**

- (1) FEE (the Federation of European Accountants, [www.fee.be](http://www.fee.be)) is pleased to provide you below with its comments on the IASB’s ED: “Conceptual Framework for Financial Reporting” (ED/2015/3).
- (2) FEE welcomes the IASB’s efforts to revise its Conceptual Framework, with the objective to fill gaps, update and clarify at a conceptual basis the concepts for developing IFRS. In general we are very supportive of the proposals in the ED with the exception of some specific areas, which are explained in detail in the accompanied appendix.

**Role of the Conceptual Framework**

- (3) FEE agrees with the role of the Conceptual Framework as defined in paragraph IN1. We agree that its primary use should be to assist the IASB in developing its future standards based on consistent concepts and also to assist preparers and other users to understand and consistently apply the standards.

**Objective of general purpose financial reporting and qualitative characteristics of useful financial information**

- (4) We welcome the reintroduction of the notion of stewardship, prudence and substance over form in the ED. However, we question whether prudence should be part of neutrality or whether it should not be a separate component of faithful representation ; we also believe that the notion of prudence should not be restricted to measurement aspects and suggest that the conceptual framework elaborates further how the IASB intends to use this concept, for both recognition and measurement requirements.
- (5) FEE agrees with the need to discuss uncertainty in the Conceptual Framework. However, FEE questions whether it is not too narrow to introduce this notion as part of relevance only as it is believed to equally apply to faithful representation. FEE would therefore suggest considering the introduction of uncertainty at large as an underlying constraint when discussing the qualitative characteristics and then elaborate further on existence and measurement uncertainty in the relevant chapters.

### **Financial statements and reporting entity**

- (6) The chapter on reporting entity attempts addressing one of the significant gaps in the current Conceptual Framework. While we support the introduction of new guidance, we urge the Board to positively define the reporting entity and especially its boundaries, which can currently be debatable (control, joint control, significant influence). Providing further clarity on how to identify the boundaries of a reporting entity will also help preparers to determine the reporting entity when preparing combined and carve-out financial statements.

### **Elements of financial statements**

- (7) We support the revised (updated) definitions of assets and liabilities and the removal of the probability thresholds. We believe that the new definitions will be better understood and applied in practice. We raise the concern that some aspects of the new definitions might not be in line with the existing standards. While we support the IASB's conclusion, not to immediately revisit the existing standards, we urge the Board to add a longer-term project on its agenda to review the existing requirements in light of the Revised Conceptual Framework.
- (8) Regarding liabilities, we believe that further clarifications in the Revised Conceptual Framework would be useful regarding economic compulsion and the notion of past events.
- (9) FEE has sympathy with the Alternative Views expressed in the ED regarding the distinction between equity and liability<sup>1</sup>; however we understand the reasons why the IASB proceeded with the publication of the ED before the dedicated project has been developed. We therefore suggest to the IASB revisiting the Revised Conceptual Framework once its research project: "Financial Instruments with Characteristics of Equity" is further developed to add some conceptual guidance.
- (10) Finally, we express our disappointment that the IASB has not conceptually defined cash flows and consequently the cash flow statement and the link of the cash flow statement to the statement(s) of financial performance and financial position.

### **Recognition and Derecognition**

- (11) FEE supports the updated recognition guidance and the link to the qualitative characteristics. We also welcome the discussion around derecognition of elements, which clearly fills a gap in the current Conceptual Framework.

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<sup>1</sup> Two IASB members voted against the publication of the ED because they disagree with the changes proposed to the definition of a liability. Even though they agree that the definition of a liability should be used to distinguish between liability and equity, they believe that the IASB should have more fully considered changes to the definition of a liability to address the classification of claims against the entity as liability or equity.

- (12) Having said that, we believe that it is not clear what the IASB's intentions are regarding the two models for derecognition. We would support some further conceptual guidance on how the IASB will approach derecognition of assets and liabilities in the future. In particular the IASB has not clarified its intentions on whether it will promote a single model or not and if not, the IASB has not clarified its intentions on how to deal with conflicts between the two aims for derecognition.

#### **Measurement bases**

- (13) The updated discussion regarding the different measurement bases is more closely aligned with the current practice in the existing IFRS. However, it appears that some existing measurement basis (e.g. income taxes, equity accounting) do not fit into those models. Hence, we would recommend to the IASB to address those differences either as part of the finalisation of the Revised Conceptual Framework or as part of an assessment of its impacts on existing standards.
- (14) We very much welcome the acknowledgement in the ED that business activities is one of the factors that is considered in selecting an appropriate measurement basis for Financial Reporting. However, we believe that the nature of the business activities should prevail over the nature of the asset or the liability.

#### **Profit or loss and OCI**

- (15) FEE welcomes the proposed guidance of profit and loss as the primary source of information on financial performance. In our understanding, users of financial statements focus their analysis on profit or loss and sometimes they ignore the Other Comprehensive Income (OCI). Therefore we agree with the IASB's approach to rebalance the current focus on financial performance.
- (16) We also agree with the relevance of using OCI to achieve more relevant information in the profit or loss; however we would welcome a conceptual definition of OCI and further guidance on the instances where the use of OCI would enhance the profit or loss.
- (17) Therefore, FEE agrees with the Alternative Views expressed in the ED<sup>2</sup> regarding the definition of profit or loss and the OCI. Having said that, we acknowledge that the IASB decided to proceed with the ED even though the guidance is not completely developed and therefore we urge the IASB to revisit the Revised Conceptual Framework once the dedicated project on performance is more advanced.

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<sup>2</sup> Two IASB members voted against the publication of the Exposure Draft because they do not believe that Chapter 7 of the proposed Conceptual Framework provides an adequate basis for the IASB to make decisions about the presentation of income and expenses, and in particular on what amounts should be reported in OCI and whether and when they should be subsequently reclassified to profit or loss (recycled). They consider that the Exposure Draft represents a missed opportunity to identify a conceptual basis for the use of OCI, with the IASB effectively being in no better position than it is now in determining how it should be used. They also disagree with the combination of a lack of discipline in the use of OCI with the rebuttable presumption that items are reclassified to profit and loss. They are concerned that this would lead to the use of an arbitrary basis for the reclassification of some OCI amounts.

- (18) Furthermore we propose that the IASB revisits the guidance on the use of the OCI and the concept of recycling to clarify its intentions and some more conceptual guidance on when and how the OCI should be used in future standard setting. Without any further clarity on the use of the OCI, the IASB will be in the same position in the future as it is currently with a lack of conceptual guidance on the use of OCI.

#### **Conclusion**

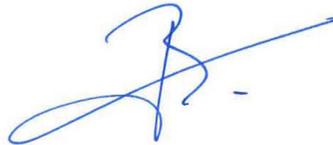
- (19) Concluding, we support the IASB's project as we understand the importance of the Conceptual Framework for Financial Reporting in the future development of IFRS. A complete, updated and robust framework would assist the IASB in its standard setting process, preparers in selecting accounting policies, users of financial statements and other constituents to better understand and comprehend the principles of IFRS, including the external auditors.
- (20) We hope that our comments in this letter and in the accompanied appendix will be helpful to the IASB to develop the Revised Conceptual Framework.

For further information on this letter, please contact Pantelis Pavlou, Manager from the FEE Team on +32 2 893 33 74 or via e-mail at [pantelis.pavlou@fee.be](mailto:pantelis.pavlou@fee.be).

Yours sincerely,



Petr Kriz  
President



Olivier Boutellis-Taft  
Chief Executive

Enclosed: Appendix FEE comments to the IASB ED/2015/3: Conceptual Framework for Financial Reporting

**Question 1 – Proposed changes to Chapters 1 and 2**

Do you support the proposals:

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

Why or why not?

**Stewardship**

- (1) FEE welcomes the reintroduction of the term “stewardship” in the Conceptual Framework for Financial Reporting. We understand that the Board’s intention is to introduce stewardship as an implied notion in the overall objectives of financial reporting.
- (2) We would not recommend that the IASB elevates stewardship as a separate objective for financial reporting in its Revised Conceptual Framework for the same reasons as explained in paragraph BC1.10 of the ED<sup>3</sup>. Having said that we would welcome some more prominence of stewardship within the overall objective of financial reporting.

**Prudence**

- (3) FEE welcomes the reintroduction of the notion of prudence in the ED. We understand that the notion of prudence was implied in the 2010 conceptual framework. However as we commented in our comment letter to the 2013 Discussion Paper, we believed that it was necessary to clarify the notion of prudence as being part of faithful representation.
- (4) However, we consider that some further clarification needs to take place in terms of properly defining the concept of prudence in the Revised Conceptual Framework. As far as we understand the Board’s intentions, prudence should apply equally to preparers of financial statements and to the IASB in setting standards. We

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<sup>3</sup> The IASB rejected the idea of identifying the provision of information to help assess management stewardship as an additional objective of financial reporting for the following reasons:

- Information about management’s stewardship is part of the information used to make decisions about whether to buy, sell or hold an investment
- Introducing an additional primary objective of financial reporting could be confusing.

acknowledge that asymmetric prudence exists on occasion in the current IFRS literature, therefore we agree with the discussion in the Basis for Conclusions where the Board correctly identifies and discusses the two aspects of prudence: caution and asymmetric prudence. Therefore we suggest that the IASB better clarifies its intentions in the Revised Conceptual Framework and clearly lays down the implications of the use of prudence on recognition of elements (Chapter 5) and measurement (Chapter 6) as we believe that the notion of prudence should not be limited solely to the measurement aspect. Having said that, we believe that asymmetric prudence should only be applied when the IASB believes that doing so would result in standards which provide more useful information to the primary users; FEE would not support a systematic application of asymmetric prudence in the IFRS literature.

### **Substance over form**

- (5) FEE welcomes the introduction of substance over form as part of the faithful representation. FEE is very supportive of the notion of substance over form as we believe that the financial statements should reflect the economic substance of the transactions and not merely their legal form.

### **Measurement uncertainty and general consideration of uncertainty**

- (6) Regarding the notion of measurement uncertainty, FEE agrees with the clarification introduced in the ED on this matter. However we question whether the measurement uncertainty should be part of relevance or part of faithful representation (and reliability) or both. Currently as it reads in the ED, the measurement uncertainty is only part of relevance and information that results in a high degree of measurement uncertainty is not considered relevant. FEE believes that measurement uncertainty is part of faithful representation, since it relates more to the discussion around reliability; and therefore we suggest that the IASB moves the discussion under faithful representation.
- (7) Furthermore, as we believe that uncertainty exists in different forms in financial reporting, and not just with respect to measurement uncertainty (which is acknowledged later in the ED). FEE proposes, as an alternative approach, that the discussion regarding uncertainty at large can be mentioned in Chapter 2 followed by the existing references to existence uncertainty in Chapter 4 (definitions of the elements) and measurement uncertainty in Chapter 6 (Measurement)

### **Relevance and faithful representation**

- (8) Regarding the last point in question 1, FEE agrees with the ED for maintaining two qualitative and four enhancing characteristics (including the notion of the overarching cost constraint). FEE is aware of some views that strongly support the reintroduction of reliability as a separate qualitative characteristic or replacement of faithful representation. Before the 2010 Conceptual Framework, several constituents supported the view that reliability (as a qualitative characteristic at the time) could be misinterpreted as a notion of only clerical and mathematical accuracy while it should have a broader scope. We would suggest to the IASB to include a discussion on reliability in the ED, under the section of faithful representation's discussion, to clarify this point and address those concerns.

**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?

- (9) FEE broadly agrees with the introduction of this new chapter to identify and define the reporting entity. We agree with paragraph 3.12 which states that a reporting entity is not necessarily a legal entity.
- (10) While we also support the notion of control as introduced in the ED, we urge the Board to positively define the reporting entity and especially its boundaries, which can currently be debatable (control, joint control, significant influence). Providing further clarity on these aspects will also help preparers to determine the reporting entity when preparing combined or carve out financial statements. While we agree with the principle stated in paragraph 3.16, regarding the need for describing the set of economic activities, we believe that the IASB should elaborate further on this matter. We do not believe that the Board's intentions are clear in the ED. A potential interpretation could be that this requirement adds disclosures for the reporting entity.
- (11) The ED explains in paragraph 3.20 the need for unconsolidated financial statements for the parent entity. Equally, we believe that arguments exist for the single entity financial statements of a subsidiary company. As an example, we believe that those investors representing a non-controlling interest in an entity would most probably be able to find useful information on the performance of the subsidiary company in the single entity financial statements. We believe that depending on the primary users' needs, consolidated and unconsolidated financial statements can provide useful information.
- (12) Having said that, we agree that the unconsolidated financial statements cannot substitute the need to present consolidated financial statements as explained in paragraph BC3.14.
- (13) Furthermore we recommend the IASB to reconsider the terminology in this chapter, which is not consistent with the existing terms used in the IFRS literature. The terms "direct" and "indirect" control are not used in the context of IFRS 10 and the term "unconsolidated financial statements" is not used in IAS 27. We suggest that the IASB reviews the different terms and definitions in this chapter to ensure consistency across the IFRS literature.

**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?

**Asset and the related definition of an economic resource**

- (14) Generally, FEE supports the new definition of assets. We believe they would be better understood and applied in the overall concept of financial reporting. We also agree with the proposed guidance for economic resource.

**Liability**

- (15) In general we support the revised definition of liability in the ED. However we note that the existing standards currently use a different definition for liability and this might raise inconsistencies with the Revised Conceptual Framework. Therefore we suggest that the IASB carefully assesses the impact of the inconsistencies between the existing standards and the definitions of the Revised Conceptual Framework. Having said this, we agree with the IASB's decision that changes to the Conceptual Framework should not directly affect the current standards and we would welcome a new longer-term project on the IASB's agenda to review the inconsistencies in the existing standards once the Revised Conceptual Framework is completed.
- (16) We welcome the reference to constructive obligations in the ED. We believe that this reference would assist in the future standard setting and also assist other constituents to better understand some of the existing requirements (e.g. IAS 37 requirements for provisions).
- (17) We disagree with paragraph 4.25 that states that when a party has a liability, another party (even society at large) has an asset. We also disagree with the Basis for Conclusions (BC 4.78) where the IASB explains the rationale for deciding to include this general reference in the ED. Even if this statement might be true for a range of different examples, it might cause confusion among the different users of the framework and might result in unintended consequences; as it is not well explained or supported. For example it is debatable whether an asset can be controlled by the society at large, and therefore, it is arguable whether an asset exists. Therefore, even though we understand that paragraph 4.25 serves as an introductory paragraph for the paragraph 4.26, we suggest deleting this reference from the ED.

## Equity

(18) FEE agrees with the proposal to maintain the definition of equity. While we support the IASB's initiative to undertake a research project on Financial Instruments with Characteristics of Equity, we also agree with the comments expressed in the Alternative Views<sup>4</sup> (AV8-AV14). We understand that the new project might take a while to finalise. Therefore we can support the conclusion to issue the ED before the finalisation of this project. However in the light of the outcome of this research the IASB might consider revising the Revised Conceptual Framework and the relevant IFRSs.

### 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?

(19) Generally FEE agrees with the proposals in the ED regarding the present obligation; however we raise some concerns regarding the clarification of certain paragraphs and requirements as well as on the inconsistencies with existing IFRS.

(20) While we express our support for the proposed guidance we would suggest to the IASB to reassess the robustness of the proposed definitions. Currently we believe that the IASB has not assessed the impact of the proposed framework on the current standards. We believe that the analysis in the ED is not complete, and therefore we urge the IASB to undertake a thorough assessment on how the proposed guidance fits in with the concepts developed in the existing standards (especially IAS 37). In this regard, the "Consultation on the definitions of assets and liabilities"<sup>5</sup> currently being performed by EFRAG might be useful both to understand the impacts of the proposed Framework on current IFRS and also to test the robustness of the proposed definitions.

(21) In addition, we agree with the IASB's analysis in paragraphs BC4.54 and BC4.65 stating that some of the proposed guidance in the ED contradicts the decisions taken by the Interpretation Committee when deciding on the guidance on IFRIC 21.

(22) Furthermore we suggest that the IASB considers including the discussion regarding the economic compulsion as included in paragraphs BC4.73-BC4.75 in the Revised Conceptual Framework. We believe that the explanations presented in the basis for conclusions can help the users of the framework to better understand the principles developed for the definition of liabilities.

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<sup>4</sup> Two IASB members voted against the publication of the ED because they disagree with the changes proposed to the definition of a liability. Even though they agree that the definition of a liability should be used to distinguish between a liability and equity, they believe that the IASB should have more fully considered changes to the definition of a liability to address the classification of claims against the entity as a liability or equity.

<sup>5</sup> <http://www.efrag.org/Front/n1-1557/EFrag-publishes-a-questionnaire-on-the-proposed-definitions-of-assets-and-liabilities.aspx>

- (23) We identify some inconsistencies in paragraphs 4.35 and 4.39 where the ED provides further guidance regarding the “no practical ability to avoid transfer” and “past events”. As far as we understand the intentions of the Board, paragraph 4.35 could be applied in the context of the extension of a lease contract while paragraph 4.39 could be applied in the context of executory contracts. We would suggest that the IASB clarifies the principle and adds guidance to illustrate how these principles should be applied in practice.
- (24) Finally we agree and support the discussion regarding the past event in the ED (paragraphs 4.36-4.39).

**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.

**Executory contracts**

- (25) While we support the main principles in paragraphs 4.40 -4.42 of the ED (as they were brought forward from the existing Conceptual Framework, paragraph 4.46), we suggest that the IASB considers enhancing the guidance by further articulating the notion of unit of account and how the IASB intends to use this notion in the guidance for executory contracts.

**Unit of account**

- (26) In principle we agree with the discussion and the main principles of the unit of account. We however have some comments on specific matters in the ED, in addition to the one mentioned above regarding the application of the unit of account in the concept of executory contracts.
- (27) We agree with the IASB that the decision for the unit of account should be a standard’s level decision and therefore we support a reference (for example in paragraph 4.63) to the Revised Conceptual Framework similar to the one included in the BC 4.115 to clarify the IASB’s intentions. FEE believes that an important element of the discussion on the unit of account is the discussion regarding the business activities (paragraph 4.62 (a) (iii)). The notion of business activities (or business model) is not well defined in the ED even though it seems to play an important role in deciding on the unit of account and later the measurement basis. We would welcome a discussion on the business model and how it affects the key decisions taken on the important areas of financial reporting. We include further comments regarding the business activities in our answer to Question 16.

**Other elements**

- (28) We do not agree with the IASB’s conclusions as explained in paragraph BC4.109 regarding the decision not to include any conceptual guidance for cash flows. We believe that the Conceptual Framework should provide the basis for a starting point for financial reporting. Therefore we would support a definition of cash flows in the ED and a reference to cash flow statements.

**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?

**General remarks**

- (29) FEE believes that the discussion on the relationship between the elements in the statement of financial position and statement(s) of financial performance is neither complete, nor well explained. We believe that it should at least include a discussion regarding the changes of statement of financial position items with no impact in the statement of financial performance. For example a repayment of a loan payable will result in a reduction of assets (cash) and in a reduction of liabilities (payables).
- (30) Furthermore we believe that the discussion for existence uncertainty and separability is key for the recognition criteria. In line with our previous comments in Question 1 regarding measurement uncertainty (paragraphs 6-7 of this appendix), we believe that such a discussion should be under faithful representation or as a separate discussion supported by the general notion of uncertainty in Financial Reporting. We also wonder why, in paragraph 5.15, rights arising from know-how and customer or supplier relationships are considered as not reflecting “contractual or other legal rights” and what the consistency with the IFRS 3 requirements is (paragraph B31).

**Disclosure requirements**

- (31) FEE agrees with paragraph 5.7 of the ED stating that not all the assets and liabilities should be recognised as the financial statements’ objective is not to reflect the market value of an entity. We also agree with the ED that disclosures might be needed for the items not recognised in the financial statements. However the way that this is presented in the ED can be seen as additional disclosure requirements of IFRS. We would suggest that the IASB clarifies that any disclosure requirements (including those for unrecognised assets and liabilities) will be discussed at a standards level without any references at this point to Chapter 7 of the ED. This will avoid confusion amongst different constituents.
- (32) We raise similar concerns for paragraph 5.11 of the ED, where the IASB suggests that disclosures might be needed when the item is not recognised in the financial statements. To avoid confusion among different constituents, we suggest that the IASB clarifies that such a decision is to be taken at the standards level (similar to the discussion that is currently included in paragraph 5.10).

**Matching of income and expenses**

- (33) Even though we support the asset and liability approach as adopted by the current Framework and the ED, this should not be to the detriment of the relevance of the statement of financial performance and of the quality of financial reporting as a whole.
- (34) Therefore we agree with the discussion in paragraph 5.8, where the ED explains the IASB’s intentions not to overlook the matching of income and expense concept. We support the discussion around this matter and the clarification that this concept does not override the need for an element to meet the definition of an asset or a liability to be recognised in the statement of financial position.

**Recognition criteria**

- (35) Generally FEE supports the IASB's efforts linking the recognition criteria to the qualitative characteristics and removing the probability thresholds. The proposed recognition criteria are easier to understand and apply.
- (36) We agree with the discussion in paragraphs 5.15 and 5.16 where the ED discusses how existence uncertainty and separability affect the recognition of an asset or a liability. We would, however, welcome a clarification that the final decision needs to be taken at a standards level since for some transactions the existence uncertainty might be dealt with in a different way (for instance the current guidance of IAS 37). We also refer to our comments in paragraph 7 of this appendix, where we suggest that the IASB introduces uncertainty as a separate constraint for financial reporting.
- (37) Paragraph 5.16 refers directly to disclosures; therefore this paragraph might be seen as additional disclosure requirements in the ED. As already stated in paragraph 31 of this appendix, we suggest that the IASB clarifies its intentions regarding additional detailed disclosures requirements. We believe that such requirements should be decided only at a Standard level and not at the Conceptual Framework level.
- (38) We agree with the discussion regarding the low probability of flow of economic benefits as discussed in paragraphs 5.17-5.19 and the related section in the basis for conclusion. We noticed, however, that the ED uses two undefined terms: "low probability" and "very low probability". While we understand the reasons behind this discussion, we suggest that the IASB uses only one description of low probability to avoid the need to impose artificial thresholds that it decided to remove by changing the recognition criteria.
- (39) In line with our comments in Question 1 regarding the fact that measurement uncertainty is discussed under relevance, FEE also disagrees with the discussion in paragraph BC5.44 (b) that concludes that the trade-off between relevance and reliability is now reflected as a trade-off between relevance itself. We would suggest that the ED clarifies that there is a trade-off between the qualitative characteristics and that the IASB should consider introducing this discussion in the ED.
- (40) Finally, while we agree with the discussion in paragraph 5.23, regarding the need to assess the overall impact on the financial statements when assessing the recognition criteria, we would welcome some more guidance on this, even the use of examples where elements of financial statements that normally would not have been recognised are included in the financial statements to eliminate accounting mismatches (e.g. fair value hedges of a firm commitment).

**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?

(41) FEE generally agrees with the proposed guidance on derecognition; however it is not clear what the IASB's intentions are regarding the two models for derecognition, as described in paragraph 5.26. Currently both models are used across different IFRS. We would support some further conceptual guidance on how the IASB will approach derecognition of assets and liabilities in the future. In particular the IASB has not clarified its intentions on whether it will continue to promote two models or a single model and if a single one, which one (control model or risks and rewards model), the IASB has not clarified its intentions on how to deal with conflicts between the two aims for derecognition as explained in paragraphs 5.30-5.32.

(42) We also support the guidance on modification of contracts in paragraphs 5.33-5.36.

**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?

**Identification of the measurement bases**

(43) FEE welcomes the revised guidance from the IASB on measurement bases. Following the discussions in the 2013 Discussion Paper, FEE broadly agrees with the proposed guidance and the identification of two key measurement bases: historical cost and current values. We also agree with the discussion and conclusion regarding the guidance on the mix measurement bases.

(44) Consequently we agree with the proposal to include the guidance on cash-flow based measurement techniques as an appendix to the ED as we acknowledge the lack of guidance on this matter. However we question whether the guidance should be part of the Revised Conceptual Framework, or a project on its own (either amending IFRS 13 or a completely different project). Having said that, we also acknowledge the Board's efforts and its research project on Discount Rates.

**Discussion for each of the measurement bases**

(45) We support the Board's efforts to identify the measurement bases in the ED. The updated discussion regarding the different measurement bases is more closely aligned with the current practice in the existing IFRS. However, it appears that some existing measurement basis (e.g. income taxes, equity accounting) do not fit into those models. Hence, we would recommend to the IASB to address those differences either as part of the finalisation of the conceptual framework or as part of an assessment of its impacts on existing standards.

(46) We agree in principle that fair value reflects the market participants' assumptions while the value in use and fulfilment value reflect entity specific assumptions; however there is not a clear guidance when a company should use the value in use basis. Currently value in use is only being used in the context of impairment reviews of non-financial assets and it is not clear under which circumstances the Board will consider a wider use of this basis in the future.

**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?

(47) FEE broadly agrees with the discussion regarding selecting an appropriate measurement basis, either historical cost or current values. We support the Board's views that such a discussion should be based on the qualitative characteristics and that it should be at a standard's level decision.

(48) We also agree with the discussion regarding the specific considerations for initial measurement however we always consider that initial measurement should be part of the standard's level decision and that the Revised Conceptual Framework should only describe the key principles that the IASB should follow when developing standards.

(49) Finally we support the reference to business activities when selecting an appropriate measurement basis as included in paragraph 6.54, as we believe that a business activities could be one of the key factors to consider in deciding the selection of a measurement basis. Indeed, we believe that the IASB should give more prominence to the business activities factor than to the nature of the asset or liability.

**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?

(50) FEE agrees with the ED that more than one measurement basis might be needed in the financial statements to achieve the primary objective of IFRS. We also agree that for some elements and in certain circumstances, a current value measurement basis for the statement of financial position and a different measurement basis for the statement of profit or loss could enhance the qualitative characteristics of financial reporting.

(51) The Other Comprehensive Income (OCI) can be used to address the imbalance between the financial position and profit or loss. We develop later our views on the definition of OCI and its suggested use.

**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?

- (52) In general we agree with the description provided in the ED on the scope and objective of financial statements; however we would welcome a direct reference to the key statements (including cash flow statements) and disclosures as defined in IAS 1 instead of the reference to the elements of financial statements.
- (53) Furthermore, we would welcome some discussion on cash flows, the need to define them in the Revised Conceptual Framework and the link with the elements of the statement of financial position and the performance statement(s). We believe that cash flows are an important element of financial reporting and we believe that the ED should discuss how information about cash flows enhances the qualitative characteristics of financial reporting.
- (54) Finally we strongly agree with paragraph 7.18. Disclosure requirements should avoid being too detailed and allow sufficient flexibility so that preparers avoid using boilerplate disclosures and focus more on the objective to achieve better communication using financial statements. We envisage that further guidance on disclosures will be published as part of the Disclosure Initiative project.

**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.

- (55) In our understanding, users of financial statements focus their analysis on profit or loss and sometimes they ignore the information included in the OCI. Therefore, to rebalance the current focus on financial performance, FEE welcomes the proposed guidance of profit or loss as the primary source of information on financial performance.
- (56) We also identify the need to properly define “performance” in financial reporting on a conceptual level. In our view the term “performance” relates directly to assessing management’s stewardship. We understand that the IASB has already undertaken a project on the definition of performance, titled “Primary Financial Statements”, and we envisage that once the Board concludes that project, the definition of profit or loss can be revisited in the Revised Conceptual Framework in the future.

**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?

(57) FEE agrees with the concept that profit or loss is the primary source of information about the entity's performance. We also agree with the relevance of using the OCI to achieve more relevant information in the profit or loss. However, we would welcome a conceptual definition of OCI and further guidance on the instances that the use of OCI would enhance the profit or loss.

(58) We believe that the IASB should provide guidance for the instances where the OCI could be used to enhance the usefulness of financial statements, explaining that if a particular standard makes use of the OCI that is not part of the proposed use in the Revised Conceptual Framework, then the Board needs to explain the reasons in the basis for conclusions for this particular standard.

(59) We would welcome further guidance in paragraph 7.24 (b) to better clarify the guidance and also we invite the Board to consider the following examples for the use of OCI, without limiting the guidance to these examples:

- a. to record the balancing adjustment when using a different measurement basis for financial position and a different basis for profit or loss (e.g. financial instruments measured at fair value through OCI);
- b. to record incomplete transactions, e.g. cash flow hedges; and
- c. to eliminate accounting mismatches.

(60) We strongly agree with the IASB's conclusions as described in paragraph BC7.43 restricting the use of the OCI only to the discretion of the IASB. Therefore, we suggest that the IASB also explicitly states its intentions in the Revised Conceptual Framework.

(61) Finally, we express our support for the Alternative Views<sup>6</sup> stating that the IASB has lost the opportunity to conceptually define the profit or loss and OCI. Having said that we also understand the decision to continue with the Conceptual Framework project even though some parts are not well developed. We urge the IASB to revisit this part of the Revised Conceptual Framework in the future as soon as the Financial Performance project is more advanced, to add more guidance in this Chapter.

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<sup>6</sup> Two IASB members voted against the publication of the Exposure Draft because they do not believe that Chapter 7 of the proposed Conceptual Framework provides an adequate basis for the IASB to make decisions about the presentation of income and expenses, and in particular on what amounts should be reported in OCI and whether and when they should be subsequently reclassified to profit or loss (recycled). They consider that the Exposure Draft represents a missed opportunity to identify a conceptual basis for the use of OCI, with the IASB effectively being in no better position than it is now in determining how it should be used. They also disagree with the combination of a lack of discipline in the use of OCI with the rebuttable presumption that items are reclassified to profit and loss. They are concerned that this would lead to the use of an arbitrary basis for the reclassification of some OCI amounts.

**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?

(62)As discussed in Question 12 FEE supports the IASB in clarifying that profit or loss is the primary source of information for financial performance, therefore we support the discussion for recycling in the conceptual framework.

(63)We would also suggest that the ability to identify an appropriate basis for recycling subsequently items initially recognised in OCI could be another factor to include in paragraph 7.24.

**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?

(64)While we agree with the analysis of the paragraphs referred to above, we do not believe that the IASB has identified all the instances where the proposed changes to the Conceptual Framework would cause inconsistencies with the existing IFRS. We identified three examples for the Board to further consider: revaluation model as explained in IAS 16 and IAS 38; the recognition and measurement of deferred tax assets/liabilities; and the treatment of actuarial gains/losses for defined benefit pension plans.

(65)FEE believes that current treatment of the revaluation model for non-financial assets is not completely in line with the guidance on measurement bases (Chapter 6) and on presentation (Chapter 7) in the ED. The revised current value for Property, Plant and Equipment (PPE) or intangible asset replaces the carrying amount once a new current value is available. Then the profit or loss reflects the updated carrying amount via depreciation while an adjustment is recognised directly in equity to release some of the revaluation reserve to retained earnings (annual reserve transfer IAS 16 paragraph 41, IAS 38 paragraph 87). We suggest that the Board adds this example in its basis for conclusions in section BCE and assesses whether this should be classified as a major inconsistency.

(66)Another example of inconsistency between measurement bases and specific requirements in IFRS is the recognition and measurement of deferred tax assets/liabilities. The recognition of deferred tax assets / liabilities follows principles which do not seem consistent with the asset / liability definition but rather to a cost / revenue matching principle. For example there is a question to which extent a deferred tax asset is a “right that has potential to produce economic benefits” or whether it is controlled by the entity.

(67)As a final example we identify the non-recycling of actuarial gains/losses for defined benefit plans in accordance with IAS 19, due to the lack of identifying a basis for recycling. This might raise questions whether the OCI should have been used in the first place.

(68) Finally we raise our concerns on the risk for potential divergence in the application of IFRS due to the inconsistencies of current standards and the Revised Conceptual Framework. While we support the IASB's decision not to revise the current standards in the short-term as a result of the revised Conceptual Framework, we urge the Board to add on its agenda a longer-term project to review the existing IFRS and assess whether they should be amended in light of the Revised Conceptual Framework.

**Question 16 – Business activities**

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

(69) FEE continues to support the introduction of business activities in the ED, as we believe that the business activities affect the underlying economics and therefore it should be reflected in financial reporting. However we urge the IASB to clarify and define business activities in the Revised Conceptual Framework. Currently it is not clear how business activities vary from business models as described and used in IFRS 9. In case the IASB intends to use the same definition for business activities and business model, we would strongly suggest also using the same terminology across the IFRS literature to avoid confusion amongst constituents.

(70) We also support the discussion that business activities affect recognition, measurement, unit of account and presentation. We therefore would welcome a general discussion on the business activities (including a definition and relationship with cash flows) as an aspect of relevance in Chapter 2 (following paragraph 2.10).

**Question 17 - Long-term investment**

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

(71) FEE agrees with the IASB's conclusions on long-term investors. We also agree with the approach taken by the IASB to identifying the two main themes for discussion in paragraph BCIN.35.

(72) In line with our comments on the ED regarding the role of the business activities, we believe that business activities should play a role in recognition, measurement and presentation. To address the concerns raised in paragraph BCIN.35 (a) we suggest that the ED explicitly refers to how business activities would affect future standard level decisions on recognition, measurement and presentation.

(73) Finally we support the IASB's conclusions regarding the distinction between short-term and long-term investors in the ED. We suggest that the IASB should not try to address this matter in its Conceptual Framework, and we support the conclusion that users, as identified in the ED, include both short-term and long-term investors.

**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.

**Users of financial statements**

(74) Even though FEE agrees with the discussion in the ED regarding the primary users, we believe that financial reporting should serve as a communication tool for the entity to communicate with its (primarily) external stakeholder and with internal users (management). Therefore internal users should also be recognised in the Revised Conceptual Framework. Having said that, in instances where this would lead to conflicting objectives, external (primary) users' objectives should take prominence over internal users' objectives.

**Terminology used in the ED**

(75) Regarding terminology and definitions, we urge the IASB to use consistent definitions and terminology across the IFRS literature to avoid confusion among different constituents. Furthermore, using the same definitions and terminology, assist in translating IFRS in other languages and facilitate consistent application (please refer to paragraphs 13 and 69 of this appendix).

**Capital maintenance chapter**

(76) Finally, we note that the final Chapter is neither well developed nor linked to the rest of the conceptual framework and we also note that the notion of Capital Maintenance is not widely used in the current IFRS literature. Therefore, FEE suggests to either providing more guidance on the Capital Maintenance principles, including the IASB's intentions on how this notion will be used in the future and how it impacts the other chapters of the Revised Conceptual Framework or to consider eliminating the chapter entirely from the Revised Conceptual Framework.