SwissHoldings
Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

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

Comment Letter on the Discussion Paper: A Review of the Conceptual Framework for Financial Reporting

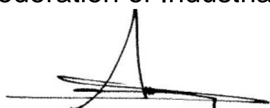
Dear Sir/Madam,

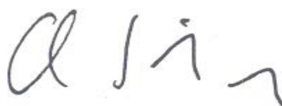
SwissHoldings, the Federation of Industrial and Service Groups in Switzerland, represents 58 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to comment on the above-mentioned Discussion Paper. Our response (in the appendix) has been prepared in conjunction with our member companies.

We thank you for the opportunity to submit our comments on your proposal.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland





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APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

Question 1

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

a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and

b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

The Discussion Paper defines as the primary purpose of the Conceptual Framework to provide assistance to the IASB in developing and revising IFRS. The role of the Conceptual Framework in helping interested parties to understand and interpret IFRS and to develop accounting policies when no IFRS applies is considered to be important, but is not embedded in the primary purpose. We disagree with this "ranking" of the objectives as we consider that the Conceptual Framework should be as equally important in the interpretation and application of the Standards as to their development. Accounting standards need to be developed and interpreted against the same background in order to achieve consistent accounting treatments. This means that the principles developed in the Conceptual Framework should be equally applicable to both developing and interpreting the Standards. Therefore we believe that the interpretation and application of accounting standards should also be addressed as a primary purpose of the Conceptual Framework.

Paragraph 1.29 states that some aspects of the Conceptual Framework are only intended for the IASB's use and should not be used by preparers when they develop accounting guidance for items to which no Standard applies. We do not understand the rationale of this approach. The discussion paper quotes as an example the guidance on when an item should be included in profit and loss or in OCI. We believe that this example is chosen as the IASB does not want the preparer to use OCI for items other than those for which it is currently defined. However, if the accounting for a transaction is not covered by an IFRS Standard, a preparer needs to seek guidance on the appropriate treatment either based on the underlying principles outlined in the Conceptual Framework or by analogy to a similar transaction for which the accounting is reflected in an IFRS Standard. This should also apply to the classification of an item as profit or loss or OCI. So if there is a proper principle established for this distinction, why should preparers be prevented from applying it for transactions not currently governed by a specific IFRS Standard?

Finally, as regards to the proposal in point b) of this question we believe it should be made clear that a Standard which conflicts with the Conceptual Framework may only be issued, if during the development of a new Standard a "weakness" or "gap" in the framework has been detected and a reason given as to why it is necessary to introduce a Standard that conflicts with the Conceptual Framework. This would imply that the Conceptual Framework has to be improved and therefore such a conflict should only be of a temporary duration.

Question 2

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

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

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

We agree with the improvements made to the definition of assets and liabilities as well as with the addition of a description on what an economic resource is. In particular we appreciate that no probability threshold is included in the definition of an asset or liability.

Question 3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB's preliminary views are that:

- *a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is "expected". An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.*
- *b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.*
- *c) the recognition criteria should not retain the existing reference to probability.*

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

Replacing the notion that an inflow or outflow is "expected" by "being capable of producing economic benefits" is a substantial improvement to the current definition of assets and liabilities. According to our opinion the term "capable" is much more objective than the term "expected" as views on what is capable of producing benefits are probably less diverse, while opinions on whether this capability is expected to turn into an economic benefit may differ substantially and may be entity specific. However, more guidance on the intention of the term "capable" should be given by the Board.

On point b) of this question we agree that setting a probability threshold to resolve existence uncertainty is not very helpful. However, we think the Board should try to give guidance on existence uncertainty in the Conceptual Framework and not only as it develops or revises a Standard. This is because how to deal with existence uncertainty should be principle-based and not depend on the underlying economic transaction for which the accounting treatment is defined in a separate Standard.

Finally, on point c) we conceptually agree that the recognition criteria should not retain the probability threshold. However, in practice the application might be very challenging and could, compared to current rules, lead to the (earlier) recognition of certain assets/liabilities (e.g. as regards to guarantees, insurance claims etc.). In particular the measurement of those assets/liabilities which usually have a high degree of uncertainty will be complex (e.g. many low probability outcomes) and costly. While we agree therefore that the probability threshold should not be retained in the recognition criteria, we believe that it has to be addressed in the measurement aspects of the various Standards. Therefore we believe the Board should further discuss the implications of this approach.

Question 4

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52.

Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

The Discussion Paper identifies income and expenses as the two elements of the above mentioned statements. Additional elements are not identified as this would require clear guidance on how to differentiate those elements from income and expense (Paragraph 2.46). The IASB is of the view that such guidance should be provided in a project on financial statement presentation. We are in agreement that more granular elements should be identified in a dedicated Standard. However, to this purpose, the Conceptual Framework should provide principles-based guidance on whether activities of a reporting entity may be split up into different components (e.g. ordinary activities, financing activities etc.), and if so, provide general principles on how to differentiate the different kind of activities. Based on these principles a future Standard on financial statement presentation could then establish additional elements.

Question 5

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

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

We agree that “constructive obligations” should encompass a broader definition than just those that are “enforceable by legal or equivalent means”.

As indicated in paragraph 3.61 there can be instances where an entity has received its board’s endorsement to go further than legally required for reputational or similar reasons and publicly announced its intentions in this respect. As mentioned, examples of this are environmental remediation or social responsibility initiatives. Therefore we believe it would be most helpful to focus on defining what “equivalent” means in the context of “economic compulsion” if an entity has specific approaches to “constructive obligations” which go further than those that are “enforceable by legal […] means” and which therefore could result in additional liabilities being recognised compared to peer entities.

Question 6

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

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

b) *View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.*

c) *View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.*

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

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

We agree that View 1 is too narrow, especially when considering our views above on "constructive obligations". It would also potentially lead to legal form taking precedence over economic substance.

We propose a solution that is between Views 2 and 3. We consider that View 3 should be used as a base but restricted so that it would not require recognition of all potential liabilities, e.g., contingent consideration and sales based royalties. In the above definition of View 3 "a present obligation must have arisen from past events, but may be conditional on the entity's future actions" it will be necessary to refine the circumstances of "may be conditional on the *entity's future actions"* to clearly exclude future outcomes related to the success of a given product or project which are not solely dependent on the actions of the entity itself.

Question 7

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

Paragraphs 3.16–3.34 provide explanations on the definition of control to be incorporated in the Conceptual Framework. Existing definitions of control in IFRS 10 and the upcoming Revenue Standard are considered. The Revenue Standard will define control as "…the ability to…obtain substantially all of the remaining benefits from an asset." The definition of control proposed in the Discussion Paper does not include the term "substantially all" as it "would be redundant and potentially confusing". However it also states that a threshold such as "substantially all" is needed for determining when to derecognize a group of rights recognized as a single asset.

Since it has already been recognized that "substantially all" will be required in certain Standards we suggest that the Conceptual Framework includes this in the definition of control. It will always

be possible to use a more specific interpretation of "substantially all" in certain new Standards but "substantially all" should not be deleted from the Conceptual Framework definition.

Question 8

Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

a) *recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or*
b) *no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.*

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

We are in agreement that recognition of all assets and liabilities should be the "default" approach and that the Conceptual Framework should provide criteria on when exceptions should apply. We agree that "relevance" of information should be such a criterion, so that assets and liabilities do not need to be recognized, if they do not result in relevant, decision useful or material information for users. The criteria is further specified by a description of situations in which information are not relevant. One of those described situations in which information is not relevant, is if the level of uncertainty in an estimate is too large. This situation seems to overlap with the other criterion "faithfulness" established in the Conceptual Framework for the recognition of assets and liabilities. This is because whether information is faithfully presented depends on whether an appropriate measure for the asset or liability exists. Hence a situation in which estimation uncertainty is too high would also fail the definition of faithfulness.

We suggest that the IASB explores further the interaction between the concepts of relevance and faithfulness and explains to what extent there should be an overlap.

Question 9

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

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

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

We are in agreement that de-recognition should be based on control and not on risk and rewards for the reasons given by the Board so we do not support option c) as the default treatment. Furthermore we also agree that there might be a need to present/disclose retained components in the financial statements either in the primary statements or in the notes depending on their significance and the concentration of risks.

Therefore the Board should consider the need for more general presentation guidance on assets and liabilities with high concentrations of risk. Retained rights and obligations with high risk concentration would then be covered by this general guidance.

Question 10

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

- a) *the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.*
- b) *the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:*
    - i. *obligations to issue equity instruments are not liabilities; and*
    - ii. *obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89 (a)).*
- c) *an entity should:*
    - i. *at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity.*
    - ii. *recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.*
- d) *if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.*

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

Basically, we are supportive of the IASB's decision in points a) and b). Defining equity as a residual category is the best way to ensure that nothing falls in between "obligations" and "equity".

On balance we also support the preliminary view of the IASB that the "strict obligation" approach is preferable to the "narrow equity" approach. The "narrow equity" approach will result in an increase in the types of instruments that are considered to be liabilities and that need to be valued at fair value through the profit and loss. Changing the value of these "quasi-equity" instruments which will not require a transfer of cash or other economic resources, will often be driven by factors outside of the control of the entity and will result in increased volatility in the

profit and loss and will further diminish the ability to use the profit and loss account to measure the entity's underlying performance.

Whilst we can see merits in providing more details for the holders of the different classes of equity by breaking equity up into primary and secondary claims we are concerned about the increase in complexity that this will bring to the production of the consolidated financial statements if there is a requirement to show the proposed "wealth transfer" between the different components.

We are also not convinced that using a market "fair value " approach to measure the different equity claims is appropriate. If, for example, the fair value increase of a secondary claim instrument is due to an increase in the share price this will result in a value decrease (e.g. wealth transfer) from the primary claims. We do not consider this to be a fair representation of underlying facts and circumstances as economically the value of the primary claims has not decreased. Therefore we believe that the approach to show a wealth transfer by re-measuring one class of equity to its current value, but the other not is not always appropriate.

Furthermore, and as stated in paragraph 5.37 of the Discussion Paper this would also require measuring equity settled share based compensation at fair value, which would be a major change. We disagree that this would decrease complexity as stated in the Discussion Paper as performing the re-measurement would be an additional activity to be performed at the end of a reporting period.

Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:

a) *the objective of measurement is to contribute to the faithful representation of relevant information about:*
    i. *the resources of the entity, claims against the entity and changes in resources and claims; and*
    ii. *how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.*
b) *a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;*
c) *when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;*
d) *the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:*
    i. *for a particular asset should depend on how that asset contributes to future cash flows; and*
    ii. *for a particular liability should depend on how the entity will settle or fulfil that liability.*

e) *the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and*

f) *the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.*

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

We agree that the criteria mentioned above are a robust and complete basis for establishing key measurement principles in the Conceptual Framework.

We agree that a single measurement basis is not appropriate and that the statements of financial position, profit and loss, comprehensive income and cash flows are often used for very different purposes.

The following are some examples:

- the statement of financial position may be used by debt-holders and other creditors to assess recoverability;
- the statement of profit and loss may be used by management and equity holders to assess how well the used resources have performed against internal targets and external benchmarks;
- the statement of cash flow (and additional details in the Notes) may be used by current and new equity investors to assess the future returns that can be expected from the entity.

Each of these users has a very different focus and we consider that there are times when the needs of one set of users for simplicity may conflict with the needs of another set of users for additional details. Therefore the Board should further develop the criteria mentioned above giving more detailed consideration to their interaction and resolution of any potential conflicts.

Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB's preliminary views are that:

a) *if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.*

b) *if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.*

c) *if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.*

d) *if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.*

Do you agree with these preliminary views and the proposed guidance in these paragraphs?

Why or why not? If you disagree, please describe what alternative approach you would support.

As mentioned in our answer to question 11 above, we are in agreement that it is appropriate to introduce a principle-based approach upon which to base the measurement of assets and that the consideration as to how an asset contributes to future cash flows is an approach that has many merits. Paragraphs 6.78–6.96 of the Discussion Paper define the four asset categories listed in points a) to d) of this question. While we believe it is necessary to define such asset categories, we consider that the underlying principles for defining these categories still need further clarification so as to make them better understandable.

For example, concerning category a), whilst we agree that inventory should be measured at its cost of production for the reasons given in the Discussion Paper in paragraph 6.80 we consider that it would be clearer if this category was defined as "assets consumed in the revenue generating activities" rather than as "items contributing indirectly to cash flows" as many would say that inventory directly contributes to cash flows. This view is supported by the fact that a key measure of operating cash flow is net working capital which includes inventories.

We also do not consider that the proposed classification approach covers all assets. For example we are not sure where goodwill would be classified between the proposed options.

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:

- *a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.*
- *b) a cost-based measurement will normally provide the most relevant information about:*
  - *i. liabilities that will be settled according to their terms; and*
  - *ii. contractual obligations for services (performance obligations).*
- *c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.*

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

We are basically in agreement with the suggestions in points a) and c) of this question.

Concerning b) which suggests that the use of a cost-based measure is normally appropriate for all liabilities settled according to their terms or for obligations to perform services. The term "normally" is most likely intended to exclude a cost based measure for liabilities with highly uncertain outcomes. Since this is rather an imprecise concept we consider that it will be necessary to give some conceptual constraints around the use of the word "normally".

One approach could be that liabilities with stated terms are split into two categories:

- those where settlement is not subject to changes in market prices and to which a cost based measure should apply; and
- those which are sensitive to changes in market prices so that cash-flow based measures apply.

Question 14

Paragraph 6.19 states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

a) *if the ultimate cash flows are not closely linked to the original cost;*
b) *if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or*
c) *if changes in market factors have a disproportionate effect on the value of the asset or the liability (e.g. the asset or the liability is highly leveraged).*

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

We are in agreement with this statement. A similar statement might be considered for non-financial liabilities, e.g. that current market (or exit) prices may not provide useful information for non-financial liabilities, which will never be transferred to a third party, but settled by the entity holding the liability.

Question 15

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

The Discussion Paper refers to the following three measures: cost-and cash flow based measures and current market prices. We would suggest defining these measures more clearly. For cost-based measures this would mean to state that reference is made to historic cost. The definition of current market prices should explain that it is a current measure derived from observable market prices and does as such not include entity specific features. Finally for cash-flow based measures it could be clarified that it is also a current measure, but in contrast to current market prices it is not based on observable prices and may or may not include entity specific characteristics.

Question 16

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

a) *the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and*
b) *other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:*
    i. *a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;*
    ii. *amendments to IAS 1; and*
    iii. *additional guidance or education material on materiality.*

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

a) *presentation in the primary financial statements, including:*
   i. *what the primary financial statements are;*
   ii. *the objective of primary financial statements;*
   iii. *classification and aggregation;*
   iv. *offsetting; and*
   v. *the relationship between primary financial statements.*
b) *disclosure in the notes to the financial statements, including:*
   i. *the objective of the notes to the financial statements; and*
   ii. *the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.*

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

The IASB's preliminary view on the scope and content of the guidance concerning the primary financial statements, disclosures and notes is focused on the entity as a whole. We consider that with this as the key area of focus all relevant aspects are discussed and explained so that it is clear how presentation and disclosure will be supporting the overall objective of financial statements.

Generally, we also agree with the views expressed in the Discussion Paper in paragraphs 7.48–7.50 on disclosure objectives and communication principles and especially that the key features of useful information, such as aggregation and offsetting, should not be pursued under all circumstances. The explicit acknowledgement that "too much" of a feature may counteract its original intent is critical for the development or interpretation of high quality accounting standards and the appropriate use of materiality. The only point where we have some concern relates to the suggestion in paragraph 7.50 d) that information disclosed in the notes should be linked where possible with other published information or the management commentary. This might be challenging to implement as it would imply that audited financial statements reference to unaudited information.

There are however, the following areas which we consider should also be addressed in the Conceptual Framework:

- the role of disaggregated segment information
- the ability of the entity to present non-IFRS data that is extracted from the IFRS information but which presents information in the way in which the entity measures its own performance

<u>Disaggregated segment data</u>

Disaggregated segment information supplies an additional level of information compared to the total entity's consolidated data and therefore represents a different type of information compared to most of the other disclosures made in the notes to the consolidated financial statements. This additional data is often welcomed by users of the consolidated financial statements. Whilst we do not advocate substantial changes to IFRS 8, we nevertheless would welcome if the role of

disaggregated data is covered in the Conceptual Framework. We therefore consider that the IASB should address in the Conceptual Framework the role of such disaggregated data and the principles that should be applied in producing it.

Non-IFRS data

We are aware that full IFRS financial statements are not being used by many of our member companies to manage their businesses from an operational point-of-view. We are concerned that this is because IFRS financial statements have become a compliance exercise for regulators but are not always useful for our member companies' management to run their businesses.

In order to align external financial reporting requirements with the managements' own performance objectives we suggest that the Conceptual Framework should address this point. One solution to this issue is to explain in the Conceptual Framework how to incorporate this non-IFRS data. We therefore suggest that the Conceptual Framework discusses the extent to which IFRS financial statements are permitted to include in their notes, data that is reconcilable from IFRS data but is in line with conforms to the way in which management measures itself and externally communicates its objectives but which does not contain all the measurement requirements for the total entity's primary financial statements produced using all IFRS guidance.

Question 17

Paragraph 7.45 describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

We agree that the concept of materiality is currently well described and also appreciate that additional guidance is contemplated. However, we are not sure that this is sufficient to address the current "disclosure overload" issues. In order to do this it needs to be clearly emphasised in the Conceptual Framework that providing disclosures on immaterial items impairs the clarity of financial statements and is therefore not in line with IFRS. The IAS 1.31 statement that an entity "need not provide a specific disclosure… if the information is not material" should be turned into a "may not" and be already captured in the Conceptual Framework.

This would hopefully:

a) encourage regulators to ask their registrants to eliminate disclosures on immaterial items as part of their comment letter process
b) support more balanced disclosure requirements in new or amended Standards, and
c) provide preparers more support in their discussions with their external auditors and regulators in their goal of being able to better communicate with the users of their financial statements without needing to add a level of immaterial detail.

Furthermore we believe the IASB should perform research on when the sheer quantity of data turns disclosures from being useful into a burden for both the preparers and the users of the related financial statements. This could be targeted on simple measures, such as the number of pages or a more sophisticated analysis such as maximum and minimum percentage of risk weighted total assets on which disclosure may or needs to be provided.

Based on the outcome, further guidance on disclosures outside the Conceptual Framework should be provided.

Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.

Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

The communication principles set out in paragraph 7.50 a) to f) should be part of the Conceptual Framework as they help to clarify what the content and format of disclosure should be to be effective. As mentioned in our answer to question 17 we believe the principle in paragraph 7.50 a), i.e. that non-entity specific information "can impair the understandability of useful information" should also apply to the disclosure of immaterial information.

Question 19

The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.

Do you agree? Why or why not?

If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss *when developing or revising particular Standards?*

We are of the view that a total or subtotal for both profit and loss and other comprehensive income needs to be required by IFRSs irrespective of the decision concerning recycling into the profit and loss of items into other comprehensive income. This is because other comprehensive income typically includes items of considerable volatility that would further distort the ability of an entity to report on its "performance" in the period. As regards to this point we believe that the requirement for totals/subtotals of all primary statements should either be in the Conceptual Framework or in a separate standard, i.e. a subtotal should not be specifically required in the Conceptual Framework only for OCI.

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognized subsequently in profit or loss, e.g. recycled, is discussed in paragraphs 8.23–8.26.

Do you agree? Why or why not?

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

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

We agree that at least some measure of recycling is required if only to address the cash flow hedging point.

We are further of the view that conceptually it would be preferable to have a common approach to all items in OCI and therefore could envisage that all items in OCI eventually need to be recycled to the income statement even if the final elements to be recycled may only occur at the time of liquidation of the entity.

We believe that many of the arguments against recycling can be addressed by appropriately disclosing the impact of recycling and allowing the entity to present its total profit and loss (and related EPS) with or without the impact of recycling. This is because the items in OCI, and any subsequent recycling as indicated in table 8.1 can come from a number of sources that typically are not taken into account in the entity's "performance" in the period.

Question 21

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

Which of these approaches do you support, and why?

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

We are generally in favour of approach 2B and its classification of OCI items into mismatched re-measurements, bridging items and transitory re-measurements.

Paragraph 8.88 lays out three characteristics for transitory re-measurements, one is that the re-measured asset or liability has a long term horizon for settlement/realization. We also agree that it may be challenging to determine when and how much of these transitory items should be recycled as is indicated with the example in paragraph 8.90 on defined benefit plans. Despite this we would suggest that in order not to have an exception to recycling the example in Flowchart 8.2 should be amended to indicate that certain items of OCI will only be fully recycled on liquidation of the entity.

Question 22

Chapters 1 and 3 of the existing Conceptual Framework

Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

We are of the opinion that the Conceptual Framework can still incorporate the concept of "stewardship" when describing the objectives of the profit and loss account and that the concept of "prudence" can be considered when measurement approaches are discussed. Therefore we suggest that there should still be a selective review of Chapters 1 and 3 when revising the full Conceptual Framework.

Question 23

Business model

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

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

If you agree, in which areas do you think that the business model concept would be helpful? Should the IASB define 'business model'? Why or why not?

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

In general we agree that financial statements are more relevant if they reflect the business model. Therefore we suggest that that the Conceptual Framework provides a business model concept, which not only clarifies the term, but also provides general guidance on the extent to which reflecting a business model can be used for measurement purposes and be utilised for presenting consolidated financial statements or related disaggregated segment data.

In this context the Board should assess whether or not there is a cost to users of slightly less comparability of financial statements by providing information based on an entity's business model.

In addition to the areas mentioned in 9.27 and 9.28 we also believe the business model concept should be relevant for setting disclosure requirements.

Question 24

Unit of account

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

Do you agree? Why or why not?

We agree that guidance on how the unit of account should be determined for specific assets and liabilities needs to be provided in a particular Standard. However, in the Conceptual Framework the IASB should define the term "unit of account" and elaborate on the underlying aggregation principles. This would ensure that guidance on the unit of account in the individual Standard is set against the same objective and therefore consistent.

Question 25

Going concern

Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?

As indicated above in our response to Question 21, apart from the items mentioned in Question 25 we could accept that certain items in OCI are only to be recycled on liquidation of the entity.

Question 26

Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

We think the IASB should review the guidance on capital maintenance and try to identify potential improvements as part of the current project on the Conceptual Framework and this should be developed in parallel with the increasingly urgent need to undertake a project on hyperinflation accounting as we are seeing a rise of economies with this condition (e.g. in South America).

This comprehensive review of the topic should identify situations other than hyperinflation to which capital maintenance could be relevant. Even the current Discussion Paper has already identified that the revaluation allowed for property, plant and equipment could be considered as a form of a capital maintenance adjustment.

The Conceptual Framework should also consider whether certain disclosures need to address capital maintenance matters.