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International Accounting Standards Board
30 Cannon Street
London
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United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON DP/2013/1 – *A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING*

In response to your request for comments on DP/2013/1 – *A Review of the Conceptual Framework for Financial Reporting*, attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Danie Coetsee (Deputy Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON DP/2013/1 – *A A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING*

GENERAL COMMENTS

We welcome the International Accounting Standards Board's (IASB) Discussion Paper on the Conceptual Framework for Financial Reporting (Conceptual Framework) and we are in agreement with most of the aspects of the proposed changes to the Conceptual Framework.

A revised Conceptual Framework could change certain principles currently applied at a standards level such as the threshold for the recognition of provisions, the presentation of items in Other Comprehensive Income (OCI), the application of the distinction between liabilities and equity and the application of measurement options. We urge the IASB to start identifying standards that should be updated to align them with the new concepts of the revised Conceptual Framework and to develop a work programme to update such identified standards. Issues might also arise when the IFRS Interpretations Committee is issuing new interpretations on standards not in line with the revised Conceptual Framework or on issues addressed in the revised Conceptual Framework before the revised Conceptual Framework is issued. The IASB should consider such transitional issues when developing the revised Conceptual Framework.

A structural issue of a new Conceptual Framework is whether the Conceptual Framework should only identify the underlying concepts of financial reporting or whether it should contain more detailed guidance. We believe that the Conceptual Framework should focus on the concepts with sufficient explanation to clarify the application of the concepts. Although we accept that detailed discussions are needed in a Discussion Paper, we feel that the proposed Conceptual Framework does sometimes provided information and examples that are only required at a standards level.

We strongly propose that both profit or loss and OCI should be sufficiently explained in section 2 as part of the elements of the statement(s) of profit or loss and OCI, so as to create robust principles to make decisions whether income and expenses should be classified in profit or loss or OCI. Such principles should start with what the role of profit and loss is in performance reporting and provide clear reasoning why certain items could be reported outside the scope of profit or loss. Without such robust principles the decision to recognise income and expenses outside profit or loss could result in arbitrary decisions. Some constituents feel strongly that without robust principles the option of OCI should be eliminated.

We feel that the business model and unit of account are considerations the IASB uses in making decisions at a standards level and should be clarified on a conceptual level since certain aspects in the proposed Conceptual Framework such as the choice of the measurement model applicable and how the chosen measurement is applied, could both be determined by the business model and the unit of account. The unit of account applied could also affect the application of the recognition and derecognition concepts and should not be developed in isolation.

Section 1 – Introduction

Question 1

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

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

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

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

We concur with the primary purpose of the revised Conceptual Framework as expressed in paragraph 1.26 of the Discussion Paper in that it will assist in the development and revision of IFRSs. We support the additional role of the Conceptual Framework, as articulated in paragraph 1.27, in helping parties other than the IASB to understand and interpret IFRSs and to develop accounting policies when no IFRS specifically applies to a particular transaction or event.

During our discussion of possible departures from the Conceptual Framework, the majority of the constituents agreed with the preliminary view that departure from the aspects of the Conceptual Framework might occur, especially in the light of the dynamic nature of transactions or events across industries, the passage of time and new developments in financial reporting. A minority, however, expressed the concern that this statement of departure sets a tone that departure from the underlying concepts in the Conceptual Framework articulated within IFRS is acceptable. This minority believe that the concepts developed should be sufficiently robust (i.e. straightforward and understandable) to create a framework of broad concepts, which do not require a need for departure therefrom.

Section 2 – Elements of financial statements

Question 2

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

(a) an asset is a present economic resource controlled by the entity as a result of past events.

(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

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

There was general agreement about the definitions proposed in the Discussion Paper as the majority of the constituents understood the 'new' definitions to not differ extensively from the current definitions of an asset and liability, apart from a clarification that an asset represents the source of value and a liability represents the obligation and not the expected inflow or outflow of economic benefits. Further comments on the proposed definitions in relation to the proposed recognition and derecognition definitions are included under our responses to question 8 and 9.

Some constituents questioned whether the 'past event' needs to be an event or a transaction external to the entity or can it also include the result of a mathematical formula applied, for example as developed in IAS 12 – *Income Taxes* (carrying amount – tax base = temporary difference) or even from applying the accounting equation (E = A – L). Most constituents, however, feel that this is a logical consequence of applying the 'past event' concept.

Others questioned whether the definitions need to include both a reference to 'past event' and 'present resource/obligation'. The majority of the constituents expressed the view that they would retain the concepts of a 'past event' and 'present resource/obligation' as these provide clarity.

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?

The general consensus was that the definitions need not refer to 'expected' inflows and outflows and the recognition criteria should neither include a probability threshold nor an assessment of existence (paragraphs 2.20 to 2.31) or outcome (paragraphs 2.32 to 2.34) uncertainty as transactions and items meeting the definition of assets and liabilities should be identifiable and recognised. Uncertainty should therefore be reflected in the measurement basis of an asset or liability.

We agree that the practical application of uncertainty may pose difficulties, but we believe that it will be more appropriate to deal with it at a standard/ interpretation level with a clear explanation (as suggested under Question 1) of any divergence.

We note that from a practical perspective that the exclusion of 'expected' may result in more assets and liabilities being recognised and this could be onerous specifically for low value items. Some constituents felt that this could result in insufficient assets and liabilities being recognised. However, our view is that the proposed changes to the definition of assets and liabilities are conceptually sound and that preparers would be aware of all the potential assets and liabilities.

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 (contribution s 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?

We agree with the brief discussion on the elements of profit or loss and OCI, the statement of cash flows and the statement of changes in equity since most constituents are familiar with the concepts and these have not created problems in practice.

However, we strongly propose that both profit or loss and OCI should be sufficiently explained in section 2 as part of the elements of the statement(s) of profit or loss and OCI, so as to create robust principles to make decisions whether income and expenses should be classified in profit or loss or OCI. Such principles should start with what the role of profit and loss is in performance reporting, with clear reasoning why certain items could be reported outside the scope of profit or loss. Without such robust principles the decision to recognise income and expenses outside profit or loss could result in arbitrary decisions. Some constituents feel strongly that without robust principles the option of OCI should be eliminated.

Section 3 – Additional guidance to support the asset and liability definitions

Question 5

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

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

We agree with the retention of the concept of ‘constructive obligations’ as well as the proposal to clarify the matters listed in paragraph 3.50 as we believe the recognition of constructive obligations provides useful information to users about the impact a reporting entity’s past practices and policies has on estimated future cash flows.

From our discussions, the following additional points could be considered either on a conceptual or standards level:

- we support adding more guidance to help distinguish ‘constructive obligations’ from ‘economic compulsion’ (which is not a trigger for the recognition of constructive obligations on its own), and
- in the context of retaining the notion of a constructive obligation, we suggest clarity about the ‘enforceability’ of the obligation based on past practice as there appears to be an inconsistent application of this notion in practice.

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 are concerned with the application of the above views and believe that the IASB should do more deliberation on uncertainty.

The consensus in IFRIC 21 – *Levies* illustrates our concern. We believe that IFRIC 21 is an application of view 1. Some of our constituents believe that view 1 is a sound basis for the recognition of a liability. However, others are of the view that view 2 is more appropriate, since they are concerned that, under view 1, certain liabilities recognised today, such as some employee benefits and constructive obligations, may not necessarily be recognised. We are aware that many preparers are of the view that the liability recognition date under IFRIC 21 is too late. These preparers are generally of the view that if it is practically unconditional that the entity will stop operating before the trigger is met, and if it is highly likely that it will be met, then the liability should be recognised. The supporters of view 1 are concerned about how the boundary will be defined under view 2. Using the levies example, if a levy is only charged if an entity is still operating within a particular industry on a specified date, under view 2, for what period(s) would the entity recognise the levy? If at the interim financial period stage it is probable that the levy will be triggered at the year end, and the following 3 year-ends, under view 2 would the liability for all 4 future payments be recognised at that date? If not, what is the boundary?

The majority of our constituents believe that the concept "practical ability to avoid the transfer" requires knowledge of the specific facts and circumstances, but are unsure whether this concept provides a robust principle that could be applied in all circumstances.

Question 7

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

No additional comments were raised apart from those mentioned under the questions above.

Section 4 – Recognition and derecognition

Question 8

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

(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or

(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

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

The majority of the constituents agreed with the proposed recognition principle and the proposed exclusion from recognition. During our discussion on recognition, some constituents were unsure whether the definitions, in essence, include 'recognition criteria' due to the absence of a statement that 'an asset is recognised *when*…' Other constituents stated that the recognition principle was developed that an asset or liability is recognised when it meets the respective definition, subject to the exclusions stated in (a) and (b) above.

A minority of the constituents observed that this implies that, for example, the concept of 'control' plays a role to identify an asset and determines when the asset is recognised. Some constituents suggested that separate recognition criteria could be clearly stated to improve clarity, for example, if the 'control' concept determines whether a source is an asset and also determine when that asset is recognised, that fact could be clearly articulated in the revised Conceptual Framework. The majority of the constituents did, however, not see the need for such a clarification.

Question 9

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

(a) enhanced disclosure;

(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or

(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

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

The response to this question is discussed under two sub-questions developed by the constituents:

Sub-question 1: Is derecognition the exact opposite of recognition?

The majority view, at a conceptual level was that derecognition should be the opposite of recognition. We concur that the recognition of an asset (or liability) might include a bundle of rights (or obligations) that are recognised simultaneously. Regarding recognition, the issue is whether a bundle of rights should be recognised together or whether the different rights should be recognised individually which could be on different dates. In our view this is also an issue of the 'unit of account' and we therefore feel that the 'unit of account' should be clarified on a conceptual level. The constituents therefore felt that the concept of 'unit of account' should not be developed in isolation.

Regarding derecognition, the 'derecognition event' may be interpreted as the event that gave rise to removing the entire bundle of rights (or obligations) or may be interpreted as the individual events removing individual rights (or obligations). The issue is when will changing circumstances result in partial or full derecognition.

Some constituents expressed a view that a clear principle of what constitutes a 'derecognition event' should be developed in order to clarify derecognition, especially in situations of contractual rights (or obligations) recognised as a bundle (for example a repurchase agreement).

Part of the issue of a bundle of transactions is also the application of the control approach. The issue is when control should be applied to the bundle of rights or individual rights. This is an issue of both recognition and derecognition and will also be the basis for deciding when to derecognise a portion of a bundle of rights or derecognising the entire bundle of rights (transaction) and recognise a new bundle (transaction), or when to still recognise the entire bundle.

We agree that the above could be clarified at a standard level for specific transactions, but the concept of 'control' and 'past event' and by implication the 'derecognition event' must be robust enough to provide sufficient guidance for the recognition or derecognition of a bundle of rights (and obligations) and would then provide sufficient guidance for making decisions regarding (a), (b) and (c) of the last part of question 9.

Sub-question 2: Should the exclusion principles provided in (a) and (b) of question 8 apply equally to derecognition?

Most constituents agreed that the exclusion principles stated under recognition do not need to apply to derecognition. The purpose of the exclusion principles under recognition is to exclude items from being recognised, and is therefore different from subsequent recognition and derecognition. Once an item is recognised, the concepts of the definitions of assets and liabilities discussed above should be used to drive derecognition.

Section 5 – Definition of equity and distinction between liabilities and equity instruments

Question 10

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

(a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

There was a general consensus amongst constituents that the Conceptual Framework should retain the existing definition of equity as a residual interest. The view expressed by the majority of the constituents was that the equation of assets minus liabilities equals equity (A-L=E) has stood the test of time and should therefore be retained.

(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)).

We agree that the definition of a liability should be the starting point to distinguish liabilities from equity instruments.

Some constituents noted that the Conceptual Framework need not state that the IASB should use the definition of a liability in making the distinction between liabilities and equity instruments. They noted that this should be obvious when applying the standards. However, clarity on a conceptual level should enhance the appropriateness of the Conceptual Framework. We also feel that the practical ability to avoid transfer and economic compulsion should be included as principles to enhance this distinction.

Some of our constituents noted that it is difficult to understand and explain the concept of equity because it includes both equity instruments that currently are entitled to a residual interest (direct equity instruments) and those that will only be entitled to a residual interest in the future (indirect equity instruments). Our view is that this is a consequence of the focus on the definition of a liability and that the distinction of direct and indirect equity instruments helps to clarify the understandability of what equity represents.

We also note that it is sometimes difficult to separate a compound instrument into the liability or equity component. In South Africa we had issues in separating certain debenture units issued by property companies since the liability portion was subjected to levels of uncertainty. We, however, feel that this is an issue that should be further clarified on a standards level and that the definition of a liability creates sufficient guidance for the distinction of the liability and equity portion on a conceptual level.

We agree that obligations to issue equity instruments ((b)(i) above) are not a liability since the entity is not transferring any economic resources. We also agree that obligations arising only on liquidation ((b) (ii)) above) should not be regarded as a liability since the transfer of economic resources is based on an uncertain event that is not applicable if the entity is still a going concern.

(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.

The majority view is that since equity is regarded as the residual, the measure of each class of equity should not be updated as the market forces will consider this in valueing equity. We believe that analysts and valuators will ignore the value of the transfer of wealth and make their own assumptions and valuations. Equity is assets less liabilities and the measurement should only change if either the measurement of assets or liabilities change. We strongly believe that disclosure of the rights that are attached to each class of an equity instrument must instead be disclosed to provide analysts and valuators with decision useful information.

Some constituents are unsure of what is meant with 'the transfer of wealth' and what the purpose is of this adjustment. Some concern was expressed regarding how 'transfer of wealth' could be practically implemented. Reference was made, in a South African environment, to Black Economic Empowerment transactions where different rights are bestowed upon holders of the same class of equity shares. In a South African context, it would be more useful to disclose information that would assist the user measuring the proportionate share of the residual interest of certain classes of shares based on the contractual rights of those classes of shares, and where different rights exists within a class of share, those rights be clearly identified.

The minority view expressed was that it is important to distinguish between direct and indirect equity instruments and that the update of the measure of each class of equity claim would be useful information to see the effect of direct and indirect equity instruments. These constituents mentioned that different equity holders have different exposures that would be difficult to be valued by the market.

(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?

Most constituents disagreed with the proposals listed under (d) from a conceptual level based on the definition of equity. Further, we note that there is no limitation on additional disclosure. Entities who find this information useful can make similar disclosures voluntary and therefore we agree that the IASB might consider additional clarification on a standards level provided that both the equity and liability features are sufficiently disclosed.

Section 6 – Measurement

Question 11

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

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:

(i) the resources of the entity, claims against the entity and changes in resources and claims; and

(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;

(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:

(i) for a particular asset should depend on how that asset contributes to future cash flows; and

(ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

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

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

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

We agree with these broad conceptual guidelines to make decisions regarding measurement options.
Although we agree with (d) that the contribution to future cash flows should be used to assess the relevance of a particular measurement, we feel that this is an aspect where the business model applied by an entity plays an important role and was indirectly used by the IASB in making its specific conceptual guidance regarding the measurement of assets and liabilities included in question 12, 13 and 14. It was noted that when an entity chooses the measurement model to be applied, it refers to its business model and even though it would not change the principle as established, it would change the way in which measurement models are applied. The business model is further discussed in our response to Question 23.

Some constituents feel that the focus on the contribution to future cash flows will result in one measurement option identified that will be used in both the statement of financial position and the statement(s) of profit or loss and OCI and question the relevance of the guidelines provided in (c) of question 11. However, the majority believe that the IASB should consider the effect of measurement on both the statements of financial position and the statement(s) of profit or loss and OCI. We believe that performance reporting may drive the use of measures different from the statement of profit or loss and OCI and therefore we believe that performance reporting should be clarified on a conceptual basis, as discussed in our response to question 4.

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.

There was a general agreement with the preliminary views expressed by the IASB as well as the proposed guidance given. Some constituents believe that use of the word 'indirectly' and 'directly' in points (a) and (b) of question 12 is not clarified sufficiently to create robust application of (a) and (b) and could lead to diversity in application.

Most constituents, however, feel that the examples used in the Discussion Paper should rather be replaced with broad guidelines. Complex financial instruments should be clarified in the standards and not used as examples to explain principles in the Conceptual Framework. This links to our view expressed in the General Comments section that the Conceptual Framework should be based on a broad framework of thought.

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 in agreement with the proposed guidance regarding the subsequent measurement of liabilities. Some constituents believe that the word 'only' may be deleted from point (a) of question 13 as it does not provide any clarification.

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 (i.e. the asset or the liability is highly leveraged).

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

We are in agreement with the preliminary views expressed by the IASB regarding applying exceptions to the normal guideline regarding (a), (b) and (c) above.

Question 15

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

No additional comments were raised.

Section 7 – Presentation and disclosure

Question 16

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

(a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and

(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:

(i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;

(ii) amendments to IAS 1; and

(iii) additional guidance or education material on materiality.

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

(a) presentation in the primary financial statements, including:

(i) what the primary financial statements are;

(ii) the objective of primary financial statements;

(iii) classification and aggregation;

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

We agree that the Conceptual Framework should include the scope and content on the presentation of the primary financial statements and the disclosures in the notes to the financial statements. However, we feel that the guidelines provided in the Discussion Paper and in the communication principles, identified in question 18, are too broad and are not sufficient to create a robust disclosure framework without over burdening the preparers of financial statements.

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 materiality is sufficiently described in the existing Conceptual Framework, however, the problem is with the application of materiality in practice. We therefore agree that the IASB should provide additional guidance and educational material on materiality outside the Conceptual Framework project.

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?

We agree that the communication principles should be included in the Conceptual Framework and in principle we also agree with the communication principles proposed. However, as stated in question 16, we believe that the communication principles are not sufficient to create a robust disclosure framework that will result in a reduction of the disclosure overload. We believe that an appropriate disclosure framework is an aspect the IASB should further investigate before a final decision is made.

Section 8 – Presentation in the statement of comprehensive Income — profit or loss and other comprehensive income

Question 19

The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.
Do you agree? Why or why not?
If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or amending Standards?

We agree that the profit or loss total or subtotal should be retained as a subtotal to identify the performance of an entity for a period, based on sufficient clarification of the nature of the subtotal as discussed in our response to question 4.

However, a minority of the constituents still feel that OCI should not be identified separately in the statement of profit or loss and OCI and that all income and expenses should be included in profit or loss.

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, i.e. 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?

Based on our discussion in question 21 below that OCI be used for certain re-measurements, we agree that the Conceptual Framework should permit or at least require recycling for assets or liabilities that will ultimately be disposed of or settled.

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 proposed in our response to question 4 that the nature of OCI should be clarified in Chapter 2 as part of the elements of the statement of profit or loss and OCI to create robust principles to separate profit or loss and OCI. In the absence of such a clarification, we believe that the narrow approach is sufficient to deal with re-measurements. We believe that long-term re-measurements can also be included in certain instances in bridging items and therefore the additional option for long-term items included in the broad approach is not needed.

Section 9 Other issues

Question 22
Chapters 1 and 3 of the existing Conceptual Framework

Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.
Do you agree with this approach? Please explain your reasons.
If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

Although we acknowledge that stewardship is indirectly incorporated in chapter 1 of the existing Conceptual Framework by referring to management discharging their responsibilities, we propose that stewardship should be identified more directly as a sub-objective of financial reporting in the Conceptual Framework.

Our view is that reliability should not be re-introduced in the Conceptual Framework. We believe that faithful representation captures the economic reality better and is dealing sufficiently with aspects of uncertainty.

We acknowledge that there are different views on prudence which therefore creates practical issues in the application of this concept. We do not believe that prudence should be re-introduced in the Conceptual Framework since it contradicts neutrality.

Question 23
Business model

The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.
Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?
If you agree, in which areas do you think that the business model concept would be helpful?
Should the IASB define 'business model'? Why or why not?
If you think that 'business model' should be defined, how would you define it?

We believe that the business model concept is a consideration or tool that could be used by the IASB as a basis for making decisions on a standards level. We therefore agree that the business model concept should be used to develop or revise particular standards.

We believe that that the business model should be explained on a conceptual level as one of the considerations that could be used by the IASB as a basis for making decisions on a standards level. We have indicated that the business model is central to making certain measurement decisions. The business model is also important for certain disclosures and the IASB should consider how to include the business model in the disclosure and presentation guidance or framework.

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?

As stated earlier, broad concepts of the unit of account should be included in the Conceptual Framework and with further clarification made for the application thereof in specific standards. Similar to the business model, the unit of account is in our view a consideration the IASB should use in developing or revising standards. The unit of account should not be included in isolation to recognition, measurement and derecognition, and a clear link should be created in the Conceptual Framework.

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?

No additional situations have been identified were the going concern assumption might be relevant. Going concern should remain as a concept that is discussed in the Conceptual Framework, with further application guidance on a standards level to sufficiently identify whether or not an entity is a going concern. We believe that guidance should be incorporated at a standards level if an entity is not a going concern.

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.

For the moment we agree with the approach, but the IASB should review the appropriateness of the descriptions and discussions of capital maintenance concepts at a future stage. If capital maintenance concepts will only be used for high inflation issues, the question could be asked whether the concepts should be retained in the Conceptual Framework or not.

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