Dear Sir/Madam,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Discussion Paper A Review of the Conceptual Framework for Financial Reporting. We agree with the IASB that the revision of the Conceptual Framework is a high priority project. We appreciate the work that the IASB has done and believe that the Discussion Paper addresses most of the problematic areas identified by interested parties as part of the 2011 agenda consultation.

While we broadly agree with some of the IASB’s proposals, we have concerns regarding:

- the removal of the reference to probability in the recognition criteria and the overall impacts of the IASB’s proposals on the recognition of assets and liabilities. We do not think such a removal adds to the reliability of the financial statements and recommend the IASB to conduct an impact study before modifying the definitions of an asset and a liability. We have particular concerns regarding the recognition and measurement of liabilities;
- and the presentation and remeasurement of equity claims in the statement of changes in equity. While we think that disclosing the impact of changes in value of secondary equity claims on primary equity claims might be relevant information, we do not think that the IASB’s proposal meets that objective.

We support reintroducing explicitly in the Conceptual Framework the concept of reliability and the concept of prudence (as this notion was defined in the pre-2010 Conceptual Framework). We consider that financial statements can be made more relevant if the IASB considers how an entity conducts its business activities. We therefore strongly support the proposed introduction of the business model notion in the Conceptual Framework.

Our answers to the questions raised in the Discussion Paper are shown in the appendix to this letter which summarises our concerns and opinion.

We strongly encourage the IASB to assess the impacts of its proposals on the existing standards and the current practices. We note that it is likely that the principles of the revised Conceptual Framework will conflict with some requirements in existing IFRSs. We think that the IASB should identify these conflicts prior to issuing the future Exposure Draft and should assess whether they should be removed or kept. We also think that the IASB should explain the reasons for any departure.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
**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?

Yes, we agree. We note that in rare circumstances, an IFRS may conflict with an aspect of the Conceptual Framework. We also note that in the absence of an IFRS that specifically applies to a transaction, the existing requirements in paragraphs 10 and 11 of IAS 8 specify that the management should refer to the following sources in descending order in developing and applying an accounting policy:

- the requirements in IFRSs dealing with similar and related issues;
- the Conceptual Framework.

We encourage the IASB to confirm that, in the absence of an IFRS that specifically applies to a transaction and in the case where an IFRS deals with similar and related issues, paragraphs 10 and 11 of IAS 8 apply even when the IFRS dealing with the similar and related issues conflicts with the Conceptual Framework.

**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?

**Question 3**

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB’s preliminary views are that:
(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is ‘expected’. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.
(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.
(c) the recognition criteria should not retain the existing reference to probability. Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

We are not convinced that any change to the current definitions of an asset and a liability is needed. In particular, we disagree with the proposal that the existing reference to probability should be removed from the recognition criteria. We note that the Discussion Paper discusses not only the definitions of an asset and a liability, but also the recognition criteria for, and measurement of, assets and liabilities. We think that it is difficult to assess at that stage of the project the impacts of the IASB’s proposal to remove the reference to probability in the recognition criteria. Although we would not expect the Board’s proposals to fundamentally change the current practices, we strongly encourage the IASB to assess the overall impacts of its proposals on the existing standards and the current practices with regards to the accounting for assets and liabilities.

In particular, with regards to provisions accounted for under current IAS 37, we note that it is frequent to assess globally the existence of an obligation and the probability of outflows in order to determine whether a provision should be recognised. We think that the deletion of the probability threshold will put more stress on the analysis of whether a present obligation exists. We encourage the IASB to clarify the interactions between its proposal and the measurement of provisions under current IAS 37. We think that it is unclear whether the IASB’s proposal will result in imposing an expected value approach for provisions in all cases. We are not convinced that an expected value approach is appropriate for single event obligations. On the contrary, we strongly believe that such an approach does not provide better information than the use of a most likely outcome approach. See also our comments on Question 13.

**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?

We think that profit or loss, total OCI and total comprehensive income are totals derived by summing items of income or expense. We agree that the Discussion Paper should not propose to define separate elements of income or expense. Instead, we agree that the revised Conceptual Framework should provide presentation guidance addressing this topic. We also agree that it would be helpful to identify elements for the statement of changes in equity. We do not see any benefits in defining cash receipts and cash payments.
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 that the IASB should favour retaining the existing definition of a liability, which encompasses both legal and constructive obligations. We also agree that a constructive obligation should be defined on the basis of the criteria listed in paragraph 3.50 of the Discussion Paper.

We understand that the preliminary view of the IASB is that a constructive obligation is different from economic compulsion. We think that distinguishing constructive obligations from economic compulsion is a difficult matter in many areas, including ‘step up’ financial instruments. For example, a financial instrument includes no contractual obligation for the issuer to call the instrument. There is a coupon at LIBOR +2%, which can be avoided at the issuer’s option on a non-cumulative basis. The instrument includes a ‘step up’ coupon clause that would increase the coupon to LIBOR + 8% at a predetermined date in the future unless the instrument had previously been called by the issuer. In that case, we think that it is unclear whether there is a constructive obligation for the issuer. We note that some might consider that there is a constructive obligation because holders of the instrument reasonably rely on the issuer to reimburse the instrument. Not doing so would not only increase the issuer’s cost of financing but could also harm the issuer’s capacity to issue new instruments in the future if the market expectations are not met. Furthermore, the issuer might have a history of paying the coupon and a stated public policy to do so. We therefore encourage the IASB to further explore the notion of constructive obligation and add guidance to help distinguishing constructive obligations from economic compulsion. Another difference between a constructive obligation and an economic compulsion is that a constructive obligation is less likely to change when time passes than an economic compulsion. As economic compulsion may change when time passes, we consider that it should go with a reassessment principle. We therefore encourage the IASB to analyse whether a reassessment principle is also relevant for constructive obligations.

Consequently, additional guidance could emphasise that, for an entity to have a constructive obligation:
- it must have a duty or responsibility to another party or parties. It is not sufficient that an entity will be economically compelled to act in its own best interests or in the best interests of its shareholders.
- the other party or parties must be those who would benefit from the entity fulfilling its duty or responsibility or suffer loss or harm if the entity fails to fulfill its duty or responsibility. In other words, the other party or parties must be those to whom, or on whose behalf, the entity is required to transfer an economic resource.
- as a result of the entity’s past actions, the other party or parties can reasonably rely on the entity to discharge its duty or responsibility.

We think that the notion of ‘no realistic alternative’ as specified in paragraph 17 of IAS 37 is not clear and has created diverse interpretations in the past. As a result, we do not think that the IASB should retain this notion to define a constructive obligation.

**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 the IASB should reject View 1.

With regards to View 2 and View 3, we note that the identification of a liability would not necessarily lead to the recognition of a liability (as stated in paragraph 3.82 of the Discussion Paper). We understand that, in developing or amending an IFRS, the IASB might decide on a case by case basis not to recognise some assets or liabilities because it would not provide users of financial statements with information that is relevant or because no measure would result in a sufficiently faithful representation of the transaction. We agree with this proposal. For example, we agree with the proposal in the recent ED Leases not to recognise in the lessee’s liability some of the variable lease payments. We think that the same rationale should apply, for example, to variable payments for the separate acquisition of a non-financial asset that is dependent on the acquirer’s future actions.

We also think that determining whether a present obligation is practically unconditional might be subjective and might create diversity in practice. As a result, while we would not oppose View 2, we would rather favour View 3 as described in the Discussion Paper (ie a present obligation may be conditional on the entity’s future actions), but with the possibility for the IASB to decide not to recognise some assets or liabilities in accordance with the criteria mentioned in paragraph 3.82 of the Discussion Paper. Should the IASB retain View 2, we would encourage the IASB to provide additional guidance in the future Exposure Draft to
identify the types of condition that an entity might not have the practical ability to avoid and to assess the consequences of its proposal on the recognition of financial liabilities and non-financial liabilities.

We agree with the IASB that additional guidance should be provided regarding the notion of ‘executory contract’.

Lastly, we note that the IASB’s proposal may have an impact on the definition of a contingent liability. We encourage the IASB to assess the impacts of its proposal on contingent liabilities.

**Question 7**

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

No we do not.

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**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?

Yes, we broadly agree. However, we think that it is unclear whether the IASB’s proposal would result in recognising for example internally generated intangible assets (including internally generated goodwill). We encourage the IASB to be cautious and assess the impacts of its proposal on the current IFRSs and existing practices. Moreover, as discussed in our answer to Question 3, we disagree with the IASB’s proposal that probability should be removed as a criterion to recognise assets or liabilities.

**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;
Yes, we broadly agree. However, we think that the IASB should retain a risks-and-rewards approach in situations described in paragraphs 4.38-4.44 of the Discussion Paper (ie sale of receivables with partial recourse and sale of a bond with repurchase agreement) as we believe that derecognition in those cases would not faithfully represent the substance of the transactions.

We also think that the IASB should provide additional guidance on the ‘unit of account’ and should determine how this affects the derecognition requirements. In any case, we strongly encourage the IASB to assess in detail the overall impacts of its proposals on the existing practices.

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

Question 10

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

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

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

Definition of equity:

We understand that the objective of the IASB is to use the current IFRSs as a starting point and to amend the requirements that are considered to be problematic. We agree with the IASB
that 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. We also agree with the IASB that the objective of financial statements is not to show the value of the reporting entity. As a result, we think that equity should not be directly remeasured.

**Distinguishing liabilities from equity instruments:**
We agree that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. We think that this proposal will simplify the distinction between liabilities and equity. We think that the objective when distinguishing liabilities from equity instruments should be to determine whether the entity has an obligation to transfer cash or other economic resources to third parties. We therefore support the proposal in the Discussion Paper to base the distinction between liabilities and equity instruments on the characteristics of the instruments issued (taking into account relevant local laws, regulations and the entity’s governing charter as mentioned in IFRIC 2 *Members’ share in co-operative entities and similar instruments*).

As a result, we conceptually support the ‘strict obligation approach’ as described in the Discussion Paper. We think that the ‘strict obligation approach’ will bring more consistency and comparability across entities.

However, we think that there should an exception to the principles described above in certain cases if the conclusion is that no equity instruments were issued by the entity. In particular, we think that the most subordinated class of instruments should be classified as equity instruments in situations such as those currently identified by the IASB in IFRIC 2 and in the amendments to IAS 32 *Puttable Financial Instruments and Obligations Arising on Liquidation*. Whatever the approach retained, we encourage the IASB to assess the impacts of its proposal on the accounting for puttable financial instruments and for co-operative and mutual entities.

**Obligations to deliver equity instruments:**
One consequence of the ‘strict obligation approach’ is that obligations to deliver equity instruments would be classified as equity. We conceptually agree with this proposal. We acknowledge that there might be tricky cases where it is controversial whether the ‘strict obligation approach’ provides relevant information for users of financial statements. This is particularly the case for financial instruments with settlement options in cash or equity instruments (whether at the option of the holder or at the option of the issuer). We would encourage the IASB to assess the impacts of its proposals on a wide range of financial instruments and determine whether there should be some exceptions to the ‘strict obligation approach’. Our preliminary view is that exceptions should be rare.

**Obligations that arise only on liquidation:**
Another consequence of the ‘strict obligation approach’ is that obligations that arise only on liquidation of the entity do not meet the definition of liabilities. We conceptually agree with this proposal, even in the case where the reporting entity has a predetermined life. However, we think that obligations arising only on liquidation of a limited life subsidiary (whether a structured entity or not) that is consolidated in the reporting entity’s consolidated financial statements should be classified as liabilities for those obligations that would become payable on liquidation of the consolidated subsidiary before liquidation of the reporting entity (ie the parent).
**Equity claims:**
We agree with the IASB that primary equity claims and secondary equity claims should be distinguished. They are fundamentally different. We think that users of financial statements should be made able to understand how primary equity claims are affected by secondary equity claims. As a result, we agree with the IASB that remeasuring secondary equity claims might provide relevant information for users of financial statements on how secondary equity claims affect primary equity claims.

However, we are not convinced that this information should be presented in the statement of changes in equity. We would rather encourage the IASB to further explore whether additional disclosures in the notes are more appropriate. We understand that regardless of the method used to measure equity claims, updating the measurement of those claims would not change total equity, but it would simply reallocate total equity between the classes of equity claims. We think that the different measures used for primary equity claims and secondary equity claims may result in significant changes in the value of primary equity claims (which are not measured at fair value) that would contradict their changes in fair value. This is for example the case for secondary equity claims measured at fair value whose fair value significantly increases during a reporting period and becomes material in comparison with total equity. According to the IASB’s proposal, the value of primary equity claims would be reduced despite the fact that their fair value might have increased. Although we agree that the amount of wealth transfer might be relevant information, we are not convinced that the subtotal of primary equity claims reported in that case conveys any relevant information.

For the avoidance of doubt, we do not think that equity should be remeasured in the financial statements, but we believe that providing information in the notes about remeasurement of equity claims might be useful. We think that in order to provide relevant information in the notes to users of financial statements, the remeasurement of secondary equity claims should be compared to the remeasurement of primary equity claims. In the absence of information in the notes regarding the remeasurement of primary equity claims, we are not convinced that providing information regarding the remeasurement of secondary equity claims is useful or relevant.

In any case, we strongly encourage the IASB to assess all the impacts of its proposals on each class of equity claims and their understandability for users of financial statements.

**NCI puts:**
We understand that put options written on non-controlling interests (NCI puts) would result in the recognition of a financial liability for the present value of the redemption amount if the ‘strict obligation approach’ is applied. We think that this accounting appropriately portrays the obligation of the parent to purchase shares of its subsidiary. However, we do not think that changes in the value of the liability should systematically be recognised in profit or loss. We do not think that this results in understandable and relevant information for users of financial statements. We encourage the IASB to further explore whether changes in value of the financial liability should be recognised in equity, in particular when the liability is measured at the fair value of the underlying shares (ie when the strike price for the option is the fair value of the underlying shares). Indeed, in that case, we think that changes in value of the financial liability relate to an equity transaction with existing shareholders.
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?

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.
**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 agree in principle that measurement of assets and liabilities should take into account the business model under which the entity operates in order to determine the appropriate measurement basis. However, we think that it is unclear whether the IASB’s proposal regarding cash-flow based measurements will result in imposing in all cases an expected value approach for provisions accounted for under current IAS 37. We are not convinced that an expected value approach is appropriate for single event obligations and that it provides better information than the use of a most likely outcome approach.

**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 think that it is unclear whether the IASB’s proposals will impact the accounting for embedded derivatives as it is currently stated in IFRS 9. In particular, we encourage the IASB to clarify whether the IASB’s proposals would call into question the bifurcation of derivatives embedded in financial liability hosts. We note that the accounting for derivatives embedded in financial assets hosts is currently different from the accounting for derivatives embedded in financial liabilities hosts under current IFRS 9. While we favour a solution that would split the embedded derivatives from their host instruments, we nevertheless think that the bifurcation criteria should differ from the rules existing currently in IFRS 9 and IAS 39. We encourage the IASB to discuss further the accounting for embedded derivatives as part of the
Conceptual Framework project, looking for a solution with a strong conceptual principle rather than rule-based.

We also note that the fact that there is significant variability in contractual cash flows does not mean that cost-based measurement techniques (such as amortised cost) do not work. For example, we think that a vanilla floating rate loan that is held for collection should be measured at amortised cost, although some might consider that there is a significant variability in the contractual cash flows. We encourage the IASB to define more clearly the concept of variability. Alternatively, we think that the IASB could maintain the variability criterion only in the case of cash-flows not closely linked with the host instrument.

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

**Discount rate:**
Many IFRSs specify, or refer to, the discount rate that must be used to discount estimates of future cash flows. Different Standards specify different discount rates, depending on the objective of the particular IFRS. We think that the reasons for using different discount rates should be based on a conceptual basis. We understand that the IASB will undertake a research project and will examine discount rate requirements in IFRSs, explaining why differences exist and assessing whether there any inconsistencies that the IASB should address. We think that the revised Conceptual Framework should contain principles regarding the determination of discount rate and its articulation with the cash-flow based measurements.

**Historical cost:**
We think that the IASB should provide additional guidance on how to determine the historical cost when the entity purchasing the asset is obliged to make variable payments in the future depending on certain conditions or events. We think that changes in the carrying amount of the corresponding financial liability should not be systematically recognised in profit or loss. We think that it might be appropriate in certain circumstances to adjust the carrying amount of the corresponding asset.

**Section 7 Presentation and disclosure**

**Question 16**
This section sets out the IASB’s preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:
(a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and
(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:
(i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;
(ii) amendments to IAS 1; and
(iii) additional guidance or education material on materiality.
Within this context, do you agree with the IASB’s preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:

(a) presentation in the primary financial statements, including:
(i) what the primary financial statements are;
(ii) the objective of primary financial statements;
(iii) classification and aggregation;
(iv) offsetting; and
(v) the relationship between primary financial statements.

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

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

Yes, we agree. In particular, we agree with the proposal that the revised Conceptual Framework should contain additional principles regarding presentation and disclosures. The objective of the notes to the financial statements is discussed in paragraph 7.33 of the Discussion Paper. We encourage the IASB to clarify that the objective of the notes is also to provide relevant information about items that are not recognised in the primary financial statements (ie for example contingent assets or liabilities) and relevant information on the performance of the entity (thus permitting to assess how efficiently and effectively the management has used the resources of the entity in relation with its business model).

**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?

Yes, we agree with the proposal that the IASB could develop additional guidance on materiality as described in paragraph 7.46 of the Discussion Paper. As mentioned in our response to the ESMA Discussion Paper on materiality, we strongly encourage the IASB to liaise in this field with other bodies (such as IFAC) that have developed guidance or standards on materiality in order to avoid multiplying different definitions.

**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?
Yes, we agree with the proposal that the IASB should consider communication principles as described in paragraph 7.50 of the Discussion Paper.

**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?

Yes, we agree. We strongly support retaining profit or loss as a total (rather than a subtotal) for profit or loss for the reasons set out in paragraph 8.20 of the Discussion Paper. We think that profit or loss is a useful and relevant performance measure.

**Question 20**  
The IASB’s preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, ie recycled, is discussed in paragraphs 8.23–8.26.  
Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?  
If you do not agree, how would you address cash flow hedge accounting?

Our view is that the Conceptual Framework should require the recycling of all items of income and expense previously recognised in OCI, except when basis for recycling is so complex that the cost benefit criterion is not met (ie information provided through recycling is not sufficiently relevant to justify the cost). Indeed, we think that profit or loss is the main indicator of the entity’s performance and recycling ensures the integrity of this indicator. We therefore fully agree with the arguments set out in paragraph 8.24 of the Discussion Paper. We strongly disagree with the argument that recycling may obscure the income and expenses relating to the period as long as the reclassification occurs in the appropriate period. In practice, we believe that situations in which there is no recycling should be rare.

**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 support approach 2A (‘narrow approach’) as described in paragraph 8.40 of the Discussion Paper. We think that this approach is conceptually sound. This approach applies the following principles:
- Principle 1: items of income and expense presented in profit or loss provide the primary source of information about the return an entity has made on its economic resources in a period.

- Principle 2: all items of income and expense should be recognised in profit or loss unless recognising an item in OCI enhances the relevance of profit or loss in that period.

- Principle 3: an item recognised in OCI must subsequently be reclassified (recycled) to profit or loss—this occurs when the reclassification results in relevant information.

We note that, in applying approach 2A, it is unclear whether a remeasurement of a net defined benefit pension asset or liability in accordance with IAS 19 Employee Benefits would be recognised in OCI. We do not think that an entity should recognise and present the remeasurement of the net defined benefit pension asset or liability within profit or loss. Instead, we rather think that the IASB should explore further whether it is possible to address the operational and discount rate issues so that the remeasurements of net defined benefit assets or liabilities could be recognised in OCI and treated as bridging items (as described in paragraphs 8.55-8.57).

Whatever the approach retained, we encourage the IASB to clearly assess the impacts of its proposal on the current use of OCI.

We also consider that the IASB should launch a project to define what performance is. Indeed we consider defining the OCI without defining performance is counterintuitive.

**Section 9 Other issues**

**Question 22**

Conceptual Framework

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.

**Stewardship:**

We note that the current Conceptual Framework states that users of financial statements need information about how effectively and efficiently the entity’s management and governing body have discharged their responsibilities. As a result, although the Conceptual Framework does not use explicitly the word ‘stewardship’, we think that this notion is still part of what is needed to meet the objective of financial reporting.

Consequently, while we agree with maintaining this notion in the Conceptual Framework, we do not think that there is a need to fundamentally reconsider the Conceptual Framework with regards to stewardship. Should the IASB include additional proposals regarding stewardship,
we think that there should be a clear understanding of this notion and an assessment of the impacts on current IFRSs (including disclosures and measurement). We do not think that additional proposals regarding stewardship should result in significant changes to the rest of the Conceptual Framework or existing IFRSs.

Reliability
Although we think that the principle of faithful representation already captures the concept of reliability, we support maintaining explicitly the concept of reliability in the Conceptual Framework. In particular we consider that removing the probability criterion from the definitions of an asset and a liability could significantly reduce the reliability of the financial statements.

Prudence:
We think that issuers should apply a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. As a result, we would encourage the IASB to reintroduce the concept of prudence as described above. However, we also consider that the financial statements should remain neutral as this notion is described in the existing Conceptual Framework. As a result, as stated in paragraph 37 of the pre-2010 Conceptual Framework, the exercise of prudence should not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because in that case the financial statements would not be neutral.

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 fully agree that financial statements will be more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities, how it generates cash-flows and creates value. In line with EFRAG and the main European Standard Setters, we think that not doing so will result in less relevant information, will not lead to a faithful representation of reality, will harm comparability and will make the financial statements less understandable. However, we think that the business model notion is very difficult to define and may reduce comparability if applied inappropriately. As a result, while we fully support the introduction of the business model notion in the Conceptual Framework, we consider that:

- an entity’s business model is not a choice but is instead a matter of fact that can be observed by the way an entity is managed and information is provided to its management;
- a business model is different from ‘management’s intentions’.

**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?

Yes, we agree. See also our comments on Question 9.

**Question 25**

**Going concern**

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

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

We agree that the IASB has appropriately identified the situations in which the going concern assumption is relevant. We think that the IASB should further explain the link between the going concern assumption and the definition of a liability (and in particular the notion of ‘practically unconditional’).

**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.

Yes, we agree.