
Dear Hans,


We appreciate the work the IASB has done and particularly welcome the following aspects, even if we consider that most of these topics warrant further developments and/or enhancements:

- The reintroduction of prudence, substance over form;
- The statement according to which financial statements do not aim at representing the value of the entity;
- The preparation of financial statements according to the perspective of the entity;
- The introduction of the notion of combined financial statements;
- The assertion according to which information about income and expenses is just as important as the information provided by assets and liabilities;
- The introduction of the notion of business activities;
- The explicit recognition of a mixed measurement model;
- The explicit recognition of the profit or loss as the primary source of information on financial performance;
- The pragmatic approach of distinguishing between profit or loss and OCI, pending more developments on a separate research project

In doing so, the IASB demonstrates its capacity to listen to its constituents and its desire to refute some sometimes long-held “myths”, whilst not putting into question its recent standard-setting positions.

We are however concerned that the limitations the IASB has imposed in the ED on a number of these topics, combined with the lack of their characterisation and the desire for the existing standards (with all their inconsistencies) to be compliant with the ED’s proposals will not help the Conceptual Framework serve its goal of enabling the IASB’s standard-setting activities to be consistent, nor its interpretation by others, because the principles are way too broad to actually be labelled principles. This bears the risk of misunderstandings and further disenfranchising not only the IASB from its constituents but also the entity’s management from its financial statements.
In addition to the above we more specifically regret the following:

- The lack of explicit reference to the notion of reliability;
- The lack of acknowledgement of the relevance of asymmetrical prudence;
- The absence of the cash-flow statement from the listed financial statements;
- The lack of development on the debt/equity distinction;
- The removal of probability as a recognition criterion;
- The absence of an objective of the profit or loss linking it with the entity’s business activities.

Finally, even though there is no intention of changing existing standards, we would like to reiterate the fact that a proper impact analysis of the proposals ought to be prepared by the IASB. The compliance exercise the IASB performed is only one side of such analysis, the other being to explain how the proposals could affect existing standards if they were to come up for review. This would help constituents better understand the reach of the ED’s proposals.

Our detailed comments to the questions raised in the Exposure Draft Paper are set out in the Appendix.

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
Appendix

Question 1 – Proposed changes to Chapters 1 and 2
Do you support the proposals:
(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;
(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;
(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;
(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and
(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?
Why or why not?

(a) Stewardship
We considered in our answer to the DP that stewardship was implicit in the 2010 version of Chapter 1. As such, we felt no imperious need to reintroduce stewardship. However, we did not oppose the reintroduction of the notion provided that there was a clear understanding of its meaning and what it entails.
We agree with the areas where the notion has been introduced, although we would suggest to also introduce it in paragraphs 1.12 and 1.21.
In our view, however, the notion of stewardship bears a strong link to the notion of business activities and the way these are carried out. As indicated in our response to question 16, we consider the notion of business activities to be pervasive across all areas of financial statements. Therefore we are of the view that the notion of business activities ought to be better articulated in respect of Chapter 1 on the objectives of financial reporting.

(b) Prudence
We welcome and agree with the explicit reintroduction of prudence in the Conceptual Framework.
However, we consider that, although prudence should not lead to the (deliberate) understatement of income and assets nor to the (deliberate) overstatement of expenses or liabilities, the Conceptual Framework should recognise that prudence allows for an asymmetry in the recognition of assets compared to the recognition of liabilities in that the hurdle for recognition of an asset ought to generally be higher than that of a liability, in order to prevent or avoid unnecessary risks: in general, we consider the potential future risks of recognising upsides too early (be it through overstatement of assets or understatement of liabilities) to be potentially more damaging to the objective of financial reporting than the opposite.
In this respect, we note that the Basis for Conclusions recognises that asymmetry could be relevant whilst arguing that the IASB rejected the introduction of asymmetric prudence in all circumstances. The IASB itself argues that existing standards reflect asymmetric prudence. We therefore encourage the IASB to bring some of this discussion into the Conceptual Framework itself and to articulate this in conjunction with reference to the way the entity carries out its business activities: this would in particular help dismiss the concern that prudence would lead to never recognising unrealised gains (as expressed in BC 2.14).

In addition, we consider that this would be helpful in articulating prudence, not as supporting neutrality (as in the ED), which is intuitively difficult to explain, but as not being in contradiction with neutrality.

Finally, we consider prudence to be relevant in the context of stewardship in the sense of the virtue of management having preserved and appropriately managed and taken care of the resources entrusted to it by not having taken unnecessary (negative and positive) risks.

(c) Substance over form

We welcome and support the explicit reintroduction of the “substance over form” principle within the description of faithful representation.

However, apart from mentioning the principle, Chapter 2 does not provide any further detail as to what this principle entails. In this respect, we note explanations regarding this principle are provided in Chapter 4 related to the elements of financial statements under the heading “reporting the substance of contractual rights and contractual obligations” (paragraphs 4.53 to 4.56).

We consider the substance over form principle to be pervasive in its implications and application and therefore consider that the details provided under Chapter 4 ought to be brought forward within Chapter 2. At a minimum, a reference from Chapter 2 to Chapter 4 would be useful. In addition, there are a number of aspects discussed in the ED which would be better explained if they were articulated by reference to substance over form.

We discuss our comments on the specific wording of paragraphs 4.53 to 4.56 in our answer to question 5.

(d) Measurement uncertainty

We agree that measurement uncertainty is a factor that can make financial information less relevant. However, we consider that it equally is a factor that can make financial information less representationally faithful and that therefore the discussion on measurement uncertainty also is relevant to that fundamental characteristic, under a caption related to reliability.

Having said this, we are not convinced that the discussion in Chapter 2 should only refer to measurement uncertainty. In this respect, we note the discussion on existence uncertainty in paragraphs 5.15 and 5.16, as well as that of outcome uncertainty (as being different from measurement uncertainty) in paragraph 6.56, which also address relevance but could equally be pertinent in the context of faithful representation.

We would therefore encourage the Board to discuss the notion of uncertainty (covering aspects of existence, outcome and measurement uncertainty) within Chapter 2 on a broader perspective than just under relevance. This may also help avoid repetition in different chapters by cross-referencing back to the place where such aspects are discussed, unless it is appropriate to be more specific in the different chapters.
(e) Two fundamental characteristics

We consider the distinction between relevance and faithful representation to be somewhat artificial and blurry as, intuitively, one could argue that information cannot be relevant if it is not representationally faithful.

In addition, our above answer regarding the positioning of uncertainty, which could also be applied to substance over form, comforts us in this position.

Having said this, we are not against these two fundamental characteristics as long as:

- Faithful representation is described in terms of the entity’s business activities where appropriate rather than the abstract concept of “economic phenomena” in paragraph 2.14 (especially in the discussion on substance over form). This would also avoid the somewhat circular impression that the existing definition of faithful representation provides by removing the notion of “purports to represent”. We note that paragraphs 3.16 and 3.18(b) refer to economic activities in the context of faithful representation. Regarding our position on wording to be used, please refer to our answer to Question 16.

- the notion of reliability is explicitly reintroduced and more specifically articulated in respect to uncertainty to overcome the Board’s reluctance of using the term by avoiding that the notion of reliability is misconstrued as not allowing for the recognition and/or measurement of any items for which significant uncertainty exists. In particular, we concur with the various arguments in BC 5.43 regarding retaining reliability as a recognition criterion.

**Question 2 – Description and boundary of a reporting entity**

**Do you agree with:**

(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and

(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

**Why or why not?**

We agree that a reporting entity is an entity that chooses, or is required, to prepare general purpose financial statements (paragraph 3.11).

We also agree that a reporting entity is not necessarily a legal entity and that it could comprise a portion of an entity, or two or more entities (paragraph 3.12).

**Combined financial statements**

We welcome the introduction of the notion of combined financial statements (paragraph 3.17) for financial statements prepared for two or more entities that do not have a parent-subsidiary relationship with each other.

The proposal, however, falls short of clarifying conditions under which combined financial statements may be established. In practice, combined financial statements are often established for entities or activities under common control or with the following characteristics which, if they do not necessarily indicate control or even common control, are indicative of strong links existing between the entities, giving the ensemble, in substance, a cohesive, coordinated and purposeful stand-alone economic identity:

- entities with common management (up to a common majority shareholder);
- entities with common services which are sufficiently pervasive to generate common commercial, technical or financial policies;
- entities with major and stable contractual relationships.

In our view, this excludes groupings establishing so called “pro forma” financial statements which entail either significant assumptions to be made or reflecting situations which do not currently exist, and are thus more indicative of special purpose financial statements than of general purpose financial statements.

In this respect, we consider that general purpose financial statements ought to be better defined and articulated in respect to what special purpose financial statements (such as pro-forma financial statements) would be, as the latter would also provide information about an entity’s economic resources, claims and changes in those resources and claims (definition of general purpose financial reports in paragraph 3.2).

**Boundary of the reporting entity**

We broadly agree with the discussion on consolidated versus unconsolidated financial statements, except with the use of the notions of “direct” and “direct and indirect” control. The notions of direct and indirect control are confusing as they do not correspond to terminology and use in practice.

Those notions can in fact only be understood after having read Chapter 4 which defines economic resources and claims.

We would therefore suggest that the IASB:
- either only refers to control as being control over assets/resources and claims/liabilities and not over an entity so as to explain that unconsolidated financial statements are established as regards the assets and claims over which the parent exerts direct control and consolidated financial statements are established as regards the assets and claims over which the reporting entity exerts direct and indirect control;
- or explains that unconsolidated financial statements capture only the business activities of the parent itself, or the subsidiaries by themselves, whereas consolidated financial statements capture the business activities of the parent and its subsidiaries.

We note and regret that, in the discussion in paragraphs 3.19 to 3.22, no reference is made to the business activities carried out by either the parent or the parent and its subsidiaries: without such activities, there would be neither resources nor claims to/against the reporting entity. In addition, this does not appear consistent with paragraphs 3.16 and 3.18(b) which refer to economic activities. Regarding our position on wording to be used, please refer to our answer to question 16.

With such approaches, paragraph 3.24 could be deleted as it is out of the scope of either of the above reporting entities considered.

We would welcome that the IASB unifies or clarifies the wording regarding unconsolidated financial statements and separate financial statements (as per IAS 27), but also regarding the more commonly used terminology of “individual financial statements”.

We also note that the first sentence of paragraphs 3.20 and 3.22 adds to the confusion as the latter “the returns to investors, lenders, and other creditors of a parent depend partly on the
future net cash flows to the parent from the subsidiary” (emphasis added), which is to apply in the context of consolidated financial statements, also holds true in the context of unconsolidated financial statements (through the dividends the parent receives from the subsidiary).

Finally, we disagree with the statement in paragraph 3.23 according to which “consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements”. In our view, this depends on who the user is and what the user wants to assess from the financial statements. We therefore suggest this paragraph be deleted.

Other aspects of Chapter 3

Entity perspective
We welcome and agree that financial statements are to be prepared from the perspective of the entity as a whole. We consider that this is helpful in the context of reflecting the economic activities of the reporting entity and in serving the notion of stewardship, through appropriate representation of the entity’s performance. This ought, however, to be articulated in relation to the objectives pursued in paragraphs 1.2 and 1.3.

We are concerned, however, that the explanation provided in paragraph 3.9 is not very clear. We consider the explanation in BC 3.3 as “accounting for the entity, instead of its primary users and their interests in the reporting entity” to more clearly make the point. In relation to the point we express regarding the substance of an entity in the context of our comments on combined financial statements, we think that introducing the legal substance notion of an entity separate from that of its owners (as per the existing BC 1.8) could further clarify that point.

We also understand that some read this to mean that it is the needs of the parent entity’s users that are to be fulfilled with such financial statements, thus the needs of non-controlling interests are not considered, or, in other words, consolidated financial statements of the parent are not intended to provide information to users of a subsidiary’s financial statements, as per paragraph 3.24 (see also above our previous comment on this paragraph).

We therefore strongly encourage the IASB to clarify and where needed regroup explanations related to what it intends the entity perspective to mean and entail.

Going concern assumption
We agree that the Conceptual Framework assumes that the reporting entity is a going concern. We regret that this term is undefined. We understand the term to mean that the reporting entity has the capacity to carry out its activities in the future (because it has the resources to do so) and that therefore, the sentence “will continue in operation for the foreseeable future” actually adds to the definition.

Accordingly, we consider that the notion of going concern should be further articulated than currently in the ED along those lines. Moreover, it would be useful to understand what “foreseeable” means as it is rather vague and therefore subject to interpretation. We note that some jurisdictions specify the term to be considered, for instance 12 months in France.
**Question 3 – Definitions of elements**

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

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

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

We are still not convinced that any change to the current definitions of an asset and a liability is needed.

In particular, we regret that the Board is moving forward with removing the existing reference to probability both from the definition and the recognition criteria. In this respect, we also regret the fact that the Board has not assessed the overall impacts of its proposals on the existing standards and current practices and has instead engaged in an exercise of “compliance” of existing standards with the proposals, which seem to have been written to encompass most of the cases addressed in existing standards.

Having said this, we do provide hereafter our comments on the proposals, having regard to the fact that we would disagree if the changes in the approach were to lead to major changes from the current elements reported in financial statements.

(a) Asset

We broadly agree with the discussion provided regarding the definition of an asset.

However, subject to the IASB’s decision regarding Chapter 3 on controlling another entity (see our comments in response to Question 2), it may be useful for the Board to address the concept of control more broadly than just by referring to the control of an asset. This could be done by including paragraphs 4.17 – 4.23 in Chapter 2 alongside or within the discussion on substance over form. A discussion within Chapters 3 and 4 would no longer be required.

Consistent with the position we express in Question 5 as regards substance over form and unit of account, we think that the conclusion in paragraph 4.12 on the description of the set of rights being described as the physical object should be articulated with regard to both notions.

(b) Liability

Subject to comments made in our answer to Question 4 on the proposed description of present obligation, we broadly agree with the discussion included in the ED on the definition of a liability.

We agree with paragraphs 4.25 and 4.26. We are concerned however that paragraph 4.25 when read in isolation could be misunderstood or even challenged. We would therefore recommend that both paragraphs be merged together. We understand paragraph 4.26 to recognise that some form of asymmetrical recognition may be relevant for financial reporting purposes. We refer to our response on prudence in Question 1 for our views on this aspect.
(c) Equity

We agree with equity being further defined as the residual interest in the assets of the entity after deducting all its liabilities.

We regret that this stage of the Conceptual Framework does not help resolve the difficulties encountered in practice in distinguishing liabilities from equity. We understand that there is a separate research project on the IASB's agenda on this topic and that the IASB has not been able to really tackle these issues further. In this respect, given the uncertainty faced by entities on such matters which involve significant amounts, we urge the IASB to bring clarity and certainty to its constituents on these long-identified issues as swiftly as possible. We refer the IASB to our response to question 9 on commenting the Conceptual Framework's 2013 DP for our positions in this regard. We are however concerned about the consequences the IASB's separate project may have on the definition of a liability, thus leading to potential changes to the Conceptual Framework.

We very highly welcome the assertion in paragraph 5.7 (replicated from that in paragraph 1.7) that the purpose of financial statements is not to show the value of the entity.

(d) & (e) Income and expenses

We welcome the statement in paragraph 4.52 according to which information about income and expenses is just as important as the information provided by assets and liabilities.

We disagree, however, with asserting, in that same paragraph, that "income and expenses are the elements of an entity’s financial performance" (emphasis added), and therefore with its related representation in the table in paragraph 4.4. Whilst this statement does not contradict paragraph 7.21, according to which the profit or loss statement is the primary source of information about the entity’s financial performance (with which we agree), it however seems to contradict Chapter 1 which discusses how financial performance is reflected through accrual accounting and past cash flows. We agree with the above statement regarding the profit or loss. However, we consider that the financial performance of an entity is also assessed through OCI, some statement of financial position elements as well as through cash flows and the statement of cash flows.

On the definition of income and expenses, we regret that the definition makes no reference to the entity carrying out its business activities. We consider paragraph 4.51 to be a little short on the subject (reference to transactions and other events, as well as changes in the carrying amount of assets and liabilities). In fact, this paragraph ought to be the first paragraph in that section. We also note that it may appear as contradicting paragraphs 4.48 and 4.49 in that it refers to changes in the carrying amount of assets and liabilities being included in the amounts generated by transactions and other events whilst paragraphs 4.48 and 4.49 state that income is (expenses are) increases (decreases) in assets or decreases (increases) in liabilities, etc.

Question 4 – Present obligation

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

We agree with the discussion in paragraphs 4.31 to 4.39 on present obligation with the exception of the following:
- Paragraph 4.31 (b) as phrased could be seen as conflicting with the recognition of restructuring provisions or even lawsuits, as it is not clear in the case of such provisions, how the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligations. In the case of a restructuring plan, the announcement and commitment to the plan would in our view fall into the no practical ability to avoid the transfer criterion of paragraph 4.31 (a). Currently, this is also viewed as satisfying the past event criterion. We would therefore suggest that paragraph 4.31 (b) be rephrased to replace “in other words” by “for example” and that the discussion in paragraphs 4.36 – 39 addresses such aspects. We note in addition that this point was not identified by the IASB as being inconsistent with the ED’s proposals and would therefore suggest that the IASB also explains the reasons for which it considers there is no inconsistency, given the point we raise.

- We consider that paragraphs 4.32 – 4.35 would be enhanced if explicit reference to “economic compulsion” were included as well as the explanation provided in the basis for conclusions in BC 4.75 according to which it could be a factor to take into account but it is not sufficient in itself to create a present obligation.

We note in addition that the notion of past event, which is common to that of liabilities and assets, is only detailed within the context of defining a liability and not in the context of defining an asset.

**Question 5 – Other guidance on the elements**

*Do you have any comments on the proposed guidance? What additional guidance do you believe should be included?*

**Executory contracts**

We welcome the introduction in the Conceptual Framework of a discussion on executory contracts.

We are however concerned that, as expressed in the ED, this discussion is confusing.

We agree with considering the right and obligation to exchange economic resources as one unit of account, however only on a prospective basis, i.e. as relates to the equally unperformed obligations of the respective parties to the contract.

We are concerned that the discussion in paragraph 4.41 on favourable and unfavourable terms (which introduces notions of measurement in a chapter on recognition) leading respectively to an asset or a liability is expressed in too broad a context and is therefore confusing: would this mean that upon entering a sales contract for which the entity reasonably expects to generate a profit margin, that such profit margin is considered to be an asset at that time, even though it may not be recognised (as per the standards on revenue)? How would this tie to the arm’s length basis as described in BC 4.83 (b)? Or should the notions of favourable and unfavourable be read as compared to market prices?

We consider that it would be helpful to bring some of the discussion in the Basis for conclusions in the text of the Conceptual Framework.
Substance over form

As indicated in our answer to question 1(c) and (e), we welcome the reintroduction of the substance over form principle.

As mentioned in our answer to question 1(c), we consider the aspects of substance over form to be more pervasive than simply those of the elements (for instance in recognition and derecognition, in assessing control...), we would suggest that this topic be addressed in a broader manner so as to explain its implications.

We understand paragraph 4.53 as not stating that legal form should be ignored but as simply stating that it may not be sufficient to determine the nature of a contract. We agree with paragraph 4.54 which refers to implied terms imposed by statute which we understand to also refer to more general aspects of the law or of regulation. We understand statute to refer to both terms implied by laws and regulations (such as in rate regulation) but also to the status of the company (for instance a reporting entity being a bank, which comes with a number of requirements). We are concerned though that the term statute could be misread and be interpreted in a restricted manner, especially because, if our understanding of the term is correct, the term statute cannot be translated with one term in some languages.

We also refer to our discussion in our answer to question 1(e) regarding the artificial distinction between relevance and faithful representation.

Unit of account

We welcome the introduction of a discussion on the unit of account.

However, similarly to substance over form, we consider that the unit of account not only refers to aspects of definition, but also to aspects of measurement. In particular, we make a distinction for instance regarding portfolios between:

- Accounting for similar contracts using a portfolio approach which would be a recognition issue which eases accounting, including measurement; and
- Calculating warranty provisions which, had the calculation been performed for each individual transaction, could result in no liability recognition, but with a collective/portfolio basis produces information that is more relevant than on an individual basis.

We agree with the discussion being based on the characteristics of financial information. However, as currently stated, it remains very descriptive and does not really provide any indication as to how and which aspects are considered to be relevant in particular circumstances. As for other areas, we would suggest that the IASB provide some further discussion on how these aspects may be applied in practice by the IASB, and also by preparers when they have to refer to the Conceptual Framework.

We consider that paragraph 4.61(a) could be further enhanced by referring back to the notion of substance over form but also to the discussion on identifying the physical object instead of the underlying rights as in paragraph 4.12 (see our previous comments on this topic).

Finally, we note that the unit of account is articulated with reference to substance over form in paragraph 4.62(b) as regards representation faithfulness. We refer again to our comments on the distinction between relevance and faithful representation in our answer to Question 1(e).
As previously mentioned, we agree with paragraph 5.7 when it states that the “purpose of financial statements is not to show the value of the entity”. We however disagree with the subsequent part of the sentence in that the sole consequence of such a statement means “therefore, [that] not all assets and liabilities are recognised”, as it also means that not all assets and liabilities are recognised at fair value.

We disagree with the removal of the reference to probability from the recognition criteria. Our arguments are broadly in line with the arguments presented in BC 5.37. We are disappointed that the IASB has not attempted to rationalise why, as it states in BC 5.8, some standards do not apply a probability recognition criterion (such as IFRS 9) – and why such a threshold would prevent the recognition of derivatives (as per BC 5.9), and why different levels or different wording regarding the probability threshold have been included in other standards, at the obvious risk of differing interpretations. Whilst we do not believe that the IASB necessarily has in mind to increase the range of assets and liabilities recognised, that risk nonetheless exists, in particular because we do not see how the criteria proposed in the ED either enable the IASB to make decisions on a more coherent set of principles to achieve useful information or will result in standards – and therefore in information – which are more consistent with each other. We are also concerned that removing the probability criterion from recognition to measurement could lead to the increasing use of current/expected value measurement techniques. Moreover, the guidance provided as regards measurement does not help alleviate our concern in this respect (see our answer to Questions 8 to 10).

As also previously mentioned in the context of our comments on prudence (Question 1(b)), we also consider that acknowledgment of asymmetrical prudence in the recognition of assets versus that of liabilities is necessary.

In addition, BC 5.10 seems to imply that the notion of reliability does not only encompass measurement uncertainty. We note that the proposals to address that solely focus on measurement uncertainty (see our comments in our answer to Question 1(d)).

Without necessarily disagreeing with the factors mentioned in paragraph 5.13 and further detailed which “may not provide relevant information”, we are concerned that the developments are not conclusive enough to be helpful in making consistent standard-setting/interpretation decisions.

On particular paragraphs, we note the following points:

- In paragraph 5.16, existence uncertainty seems to have to be combined with outcome and measurement uncertainty to justify non recognition. This seems to be a high level of hurdles to have to cross. It would have been more helpful to stick to an example referring only to existence uncertainty to demonstrate the point.
  We also refer to our proposal in our answer to Question 1(d) regarding a more general discussion on uncertainties.
- Paragraph 5.18 refers to an example of the acquisition of an asset or incurrence of a liability at an observable price linking the price (cost) with the low probability that economic benefits will flow, arguing that that cost may be relevant information.
Beyond not being sure of the type of assets or liabilities the example is referring to in practice, we are not convinced that the example, as stated, actually serves the argument presented before it.

- Within the discussion on low probability of a flow of economic benefits (paragraphs 5.17 to 5.19), we note a shift from ‘low’ in paragraphs 5.17 and 5.18 to ‘very low’ in paragraph 5.19. We are not sure to understand the reason for that shift.
- The description of faithful representation in paragraphs 5.22 to 5.23 mixes aspects of recognition, measurement, presentation and disclosure. Whilst we concur and welcome these descriptions, we think they would be better placed earlier, for instance in Chapter 2.

**Question 7 – Derecognition**

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

We welcome the introduction of a discussion on derecognition.

In particular we agree with the retention of some form of the risks and rewards approach but regret that it is not really expressed as such and that therefore it does not appear clearly, except when reading the basis for conclusions.

We consider that the Conceptual Framework ought to articulate the control and risks and rewards approaches by drawing on its discussions relative to the unit of account (as per paragraph 4.63) and to substance over form.

This may enable the text to overcome presenting a difficulty to achieve both of paragraph 5.26’s aims as it currently does in paragraph 5.30.

We are not convinced that the second sentence beginning with “accordingly” in paragraph 5.27(b) adds anything to the aims described in (a) and (b).

We welcome and agree with the fact that paragraph 5.29 refers to “the exposure to positive or negative variations in the amount of economic benefits produced by an economic resource”, the retention of which may indicate retention of control of the economic resource. We think this ought to be better articulated with the definition of control which also requires the present ability to direct (see paragraph 4.18). In addition, we note that paragraph 5.29 does not mention a significance level threshold when some standards provide some form of threshold such as “substantially all” (IFRS 9). We understand that the Board deems this to comply with the ED’s proposals but are concerned that the standards could be inconsistent in the levels they could require. In this respect, we refer to our answer to Question 6 regarding recognition of asymmetrical thresholds.

**Modification of contracts**

Without disagreeing with the outcomes described as regards modification of contracts, we consider that these ought to be discussed by making reference to notions such as the unit of account and substance over form (as mentioned in BC 5.59).

In addition, we note the reference to the notion of “distinct” which is undefined and yet, under existing discussions regarding IFRS 15 seems to generate some debate. We would therefore encourage the IASB to avoid any such reference if it does not intend to further define it.
Question 8 – Measurement bases
Has the IASB:
(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?
(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Question 9 – Factors to consider when selecting a measurement basis
Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

Question 10 – More than one relevant measurement basis
Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

We very strongly welcome the recognition of a mixed measurement model and broadly concur with the distinction made between historical cost and current value, as well as their respective descriptions.
We do, however, have the following comments on these developments.

Description of advantages and disadvantages
Overall, we are not convinced that such description needs to appear in the context of each measurement basis considered. We think it would have been more helpful for the IASB and its constituents to articulate them in the context of the factors and/or objectives to consider when selecting a measurement basis for specific elements.

Current cost
We are unsure that we fully agree with the discussion on current cost. Paragraph 6.18, in grouping historical cost and current cost together as entry values seems to infer that current values are always exit values. We are not convinced this to be always the case. In addition, the first sentence in paragraph 6.19 could well apply to current cost. Finally, a link to concepts of capital maintenance is made in paragraph 6.18 which ought to be better articulated for it to be understandable.

Fair value
We are not sure about the particular cases paragraph 6.29 seeks to address. We think this could be anticipating the “more than one relevant measurement basis” section and are not convinced that the split described is inherent to fair value itself as such split would result from a standard-level decision. In this respect, table 6.1 is somewhat misleading. We therefore do not think this paragraph or table 6.1 are relevant and would suggest deleting them. In addition, we note that paragraph 7.11 under “presentation and disclosure as communication tools” refers to splitting the change in the carrying amount of an asset or liability into different components to enhance relevance and understandability of financial information on the grounds of such components having very different characteristics, without, however, providing details as to how and when this would be appropriate.
Deleting paragraph 6.29 would help bring paragraph 6.30 immediately after paragraph 6.28, which, in our view is preferable.
Moreover, we think the assertion in paragraph 6.31 about comparability being enhanced through using fair value needs to be qualified in regard to the nature of the entity’s business activities described in paragraph 6.30. For further comments regarding business activities, please refer to our answer to Question 16.

Regarding paragraph 6.32 and the existence of active markets or readily available information, we think the Conceptual Framework ought to specify that current values can be very volatile in their impact on reported earnings and that, unless market values are readily available, they may be more subject to bias and manipulation by the manager than historical cost information.

**Current value**

We note that paragraph 6.35 states that value in use and fulfilment value may need to be customised to provide the most useful information. However, no explanation is provided as to why this would/could be the case.

We think paragraph 6.44 would be better explained if the perspective of the entity were articulated in terms of its business activities. We do not support the assertion according to which value in use and fulfilment value could reduce comparability as that depends on one’s interpretation of the following from paragraph 2.26 “for information to be comparable, like things must look alike and different things must look different” and the significance given to reflecting an entity’s business activities in its financial statements.

**Factors to consider when selecting a measurement basis**

We agree with the various factors identified for consideration in the selection of a measurement basis. We particularly welcome the linkage made between related assets and liabilities in paragraph 6.58 and think this, amongst other aspects, could be explained in the context of the way the entity carries out its business activities.

We think the IASB could also explain how these factors could apply in the context of determining the historical cost for assets for which variable payments are due in the future depending on certain conditions or events.

In addition, consistent with our position on business activities (see our answer to Question 16), we regret that this factor is not given more emphasis. We note and regret that, under IFRS 9, whilst this factor is mentioned, it is trumped by the characteristics of the asset/liability criterion and are concerned that this may be a precedent, as the ED provides no indication of when and how each criterion is to be applied.

In this respect, we are still convinced 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 on vanilla-floating rate loans. Having already expressed this, we regret that the IASB has not tried to define the concept of variability or tried to articulate it in respect of how closely it is linked to the element it is attached to.

As regards measurement uncertainty and verifiability, we are concerned that paragraphs 6.57 and 6.61 would almost always lead to recognition of a highly uncertain amount because providing disclosures would be required to compensate for the uncertainty of the number presented. We are not convinced that such an outcome would be relevant and useful to users of financial statements.

**Factors specific to initial measurement**

Without necessarily disagreeing with the cases listed under this heading and their outcome, we are not convinced they are indispensable to the discussion on measurement, especially as they
do not explain why the one measurement basis is selected. Indeed, in a number of cases, assertions are made without any form of explanation as regards factors or concepts mentioned previously in the ED. We would therefore suggest that the IASB either delete these paragraphs or provide more explanation.

More than one relevant measurement basis
Whilst we agree that sometimes this outcome is relevant, we regret that the ED misses the opportunity to explain, in conjunction with Chapter 7 that profit or loss, as the primary source of information on the entity’s performance ought to give priority to reflecting the entity’s business activities, whilst the uncertainty provided by the variability of cash flows (being the characteristics of the asset/liability considered) could, in some cases to be explained, warrant splitting a change in value presented in the statement of financial position between profit or loss and OCI.

Discount rate
We regret that there is no mention of the conceptual basis on which to determine the discount rate to be used in the various cases it is required given the very significant impact such rate can have.

We do understand that there is a separate project on this topic and hope that its outcome leads to including, in the Conceptual Framework, principles regarding the determination of the discount rate to be applied and its articulation with cash-flow based techniques.

Appendix on cash-flow-based techniques
We are not convinced that this appendix is of the level of the Conceptual Framework, nor that it adds anything to it. We would therefore suggest that the IASB delete it.

**Question 11 – Objective and scope of financial statements and communication**
Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We welcome the discussion in Chapter 7 on the objective and scope of financial statements as well as on presentation and disclosure as communication tools.

We however regret that the cash flow statement is mentioned nowhere in the ED, considering the objective of the information provided by the financial statements to help users assess the prospects for future net cash inflows to the entity and management’s stewardship.

To avoid any confusion in the future, we think that it would be useful to distinguish presentation – in the primary financial statements (including the cash-flow statement and the statement of changes in equity) – from disclosure – in the notes to the financial statements. As written, paragraph 7.8 could be read as implying that it is the statement of financial position and the statements of financial performance which disclose additional information about the recognised elements and other information that is useful to users.
We also consider that the discussion under the heading on presentation and disclosure objectives and principles should put more emphasis on the entity’s business activities (see our answer to Question 16) as well as on how disclosure of information in the notes to the financial statements serves the objective of stewardship.

**Question 12 – Description of the statement of profit or loss**

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

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

**Question 13 – Reporting items of income or expenses in other comprehensive income**

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

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

**Question 14 – Recycling**

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

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

We fully agree that P&L is the primary source of information as regards financial performance as well as with the implication that other items (cash flow statement, OCI, statement of financial position, notes) also help in assessing financial performance.

We also broadly concur with the IASB’s pragmatic approach, pending achieving a definition of performance, regarding distinguishing the placement of income and expenses within profit or loss and OCI, in particular with the following:

- all income and expenses should be included in the profit or loss *at some point in time* (*emphasis added*);
- exclusion of some income or expenses from the profit or loss would be on the grounds of enhancing the relevance of the profit or loss;
- recycling of the income and expenses excluded from the profit or loss would also occur to enhance the relevance of the profit or loss.

The areas around the IASB’s approach for which we are more circumspect are the following:

- having to resort to rebuttable presumptions does not, in our view, fit well within a Conceptual Framework;
- the same goes for the restrictions included in paragraph 7.23 which seem directly derived from existing practice (without from our part necessarily questioning such practice);
- not specifying what “relevance of the profit or loss” means, therefore generating uncertainty.

We consider that these points could be resolved by:

- formulating an objective to profit or loss in relation to the entity’s business activities and the way these are carried out (see our answer to Question 16) in the related period (see our emphasis above) to provide a return on the entity’s economic resources (as per paragraph 7.20(a));
- explaining, as a consequence, the differing informational content between profit or loss and OCI;
- addressing therefore the inclusion or exclusion of items in profit or loss in view of the above and as a period-relevant issue.

Finally, we would encourage the IASB to assess the impact of its proposals on the current items that are or are not included in OCI as per the existing standards.

**Question 15 – Effects of the proposed changes to the Conceptual Framework**

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

We regret that the IASB has performed a compliance exercise of its standards to the proposals in the ED and that it has not engaged in a possible effects analysis of the ED’s proposals on existing standards.

Even though the IASB specifically spells out that it does not necessarily intend to change the existing standards, this is a significant source of uncertainty given the varying principles applied in the different standards. We can here only reiterate our request that the IASB performs a proper effects analysis rather than let its constituents second-guess what could happen.

Regarding its compliance exercise, we note that there could be more inconsistencies than the IASB has listed: for instance, regarding restructuring and other litigation liabilities (see our answer to Question 4).

**Question 16 – Business activities**

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

We regret that the ED limits considering an entity’s business activities in the context of the unit of account (paragraph 4.62(a)(iii)), measurement (paragraphs 6.30, 6.54 and 6.76) and presentation and disclosure (paragraph 7.10), and that this notion is always one amongst other factors to be considered.

We consider 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 and that not doing so does not result in relevant information, nor in a faithful representation of the entity’s economic reality.

The limitations imposed on and the lack of definition of the notion of business activities demonstrate the IASB’s unease with this notion. We encourage the IASB to further consider this notion and characterise it as follows (as mentioned in our answer to the DP):

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

In addition, it should be acknowledged that within one reporting entity, different business activities may exist.
In our view, the notion of business activity is strongly linked with that of stewardship and it seems somewhat antinomic to envisage that financial statements would not faithfully represent an entity’s business activities. In this respect, we note the following references in other parts of the ED where we think the IASB could go further by reinforcing the notion of business activities:

- Paragraph 2.14: “financial reports represent economic phenomena […] represent relevant phenomena […]. A faithful representation provides information about the substance of an economic phenomenon […]” + paras 2.16, 2.20-2.28, 5.23 c);
- Paragraph 2.35: “financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently”;
- Paragraph 3.16: “For financial statements to give a faithful representation of the economic activities of the reporting entity, […]” + paras 3.13, 3.18 b);
- Paragraph 4.47 (under equity): “Business activities are often undertaken by means of entities such as sole proprietorships, partnerships, […]”;

In addition, paragraphs 4.14(c) makes reference to how the economic resource is used to produce cash inflows or save cash outflows and paragraphs 5.23(b) and 6.58 refer to related assets and liabilities. We are unsure that the IASB actually ascribes different meanings to these various terminologies. In addition, we note that the notion of business activities is used in the same manner as that of business model under IFRS 9.

We would therefore recommend that the IASB use consistent terminology where appropriate, characterise the notion and consequently recognise that, as we believe, the notion of business activities is more pervasive and should play a more prominent role than it has been acknowledged up to now by articulating it better in respect of Chapter 1 on the objectives of financial reporting.

**Question 17 – Long-term investment**

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

As a principle, we would agree with the IASB on the fact that there ought to be no need for a Conceptual Framework to either specifically address the needs of users with a long-term investment horizon or the long-term investment activities of an entity.

However, as the proposals are currently formulated, we are not convinced that they are sufficient to ensure that the needs described above are fulfilled. In particular, we think that the notions of stewardship and business activities need to be addressed in a much more pervasive manner than the IASB proposes to do.

In addition, we note that some existing standards, amongst which IFRS 9, do not appear to take into account the issues of entities that engage in long term investment activities.
**Question 18 – Other comments**

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

**Status of framework**

We agree with the possibility for an IFRS to, rarely, conflict with the Framework subject to the IASB providing the rationale for such departure in the basis for conclusions.

We regret, however, that the proposals in the ED are based on such broad principles that they seem to encompass (nearly) all the cases covered by existing standards, thus effectively limiting the cases for departure. We are therefore concerned that the proposals in the ED would not enable the IASB to be consistent in its standard-setting, nor its constituents to derive consistent accounting principles from the Conceptual Framework, especially in view of the diversity of principles the existing standards are based on.

At all rate, we consider that, even where new requirements are considered compliant with the Conceptual Framework, the rationale for such consideration should also be included in the basis for conclusions: this would enable the IASB’s constituents to apply it and potentially make reference to it if they have to make analogies or refer to the Framework.

**Chapter 3 – The role of financial statements**

We regret that para 3.6 does not enumerate the full list of financial statements as per IAS 1. In particular, we consider that, given the objective of providing information useful in assessing the prospects for future cash flows, the absence of any reference to cash flows and to the cash flow statement is problematic.

**Materiality**

We note that the IASB has just published a draft practice statement on materiality. We think that an outcome of that document may be to introduce some high level guidance within the Conceptual Framework itself. We look forward to providing our comments on this document.