



Response to the IASB Discussion Paper:
A Review of the Conceptual Framework for Financial Reporting

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INTRODUCTION

ICAS welcomes the opportunity to comment on the IASB's Discussion Paper DP/2013/1: A Review of the Conceptual Framework for Financial Reporting.

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Accounting Standards Committee has considered the Discussion Paper and I am pleased to forward their comments. As well as preparing this letter of response, ICAS, jointly with the International Federation of Accountants (IFAC), has developed a paper discussing some more fundamental and wide-ranging issues relating to the conceptual framework, intended primarily to stimulate discussion and debate amongst the financial reporting community on this important topic. A copy of this paper will be forwarded to the IASB.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy and Secretary to the Accounting Standards Committee.

RESPONSE TO THE DISCUSSION PAPER

KEY COMMENTS

We welcome the IASB's decision to re-start its project to review its Conceptual Framework, in response to views expressed by constituents during the agenda consultation exercise. The framework is of fundamental importance to the integrity and effectiveness of financial reporting, therefore it is vital that it is up-to-date and fit for purpose. A revised framework should assist the IASB in updating existing standards and developing new standards, and preparers in developing accounting policies for transactions and events that are not within the scope of specific IFRSs. The framework should also portray a vision of what financial reporting should be. Ideally therefore, it should be useful both as a practical guide and as an aspirational document.

We appreciate that the IASB is seeking to complete this project within a relatively short timescale, but we believe there are some areas, such as measurement, which might benefit from a fuller discussion. The priority should be to complete and maintain a high-quality framework, which may require a longer-term on-going project which updates and expands the framework in the light of developments in financial (and corporate) reporting. It is also important that the framework is not reverse-engineered to fit standards that already exist, or designed to 'fix' very specific financial reporting problems that should properly be dealt with at standards level.

It is unclear from this discussion paper what the format of the revised framework will be. We believe that the framework should be a concise set of principles, with further discussion available in a basis for conclusions. The framework should be understandable to wide range of users, as the importance of the document to parties other than the IASB should not be underestimated. We do not support the IASB's proposals that certain areas of the Conceptual Framework are to be used by the IASB alone. This impairs preparers' and others' ability to exercise judgement in applying accounting concepts which is one of the key elements of high quality financial reporting.

Question 1:

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

- (a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and*
- (b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.*

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

We agree overall that the primary purpose of the Conceptual Framework is to assist the IASB in developing and revising IFRSs, although we believe it is crucial that the importance of the framework to other parties is not under-played. The framework is the fundamental underpinning of financial reporting, and sets out key concepts for financial reporting as a whole that are not necessarily addressed in specific accounting standards. Therefore an understanding of the conceptual framework is central to an understanding of financial reporting, and we believe it is an important document for many parties other than the IASB. For this reason, we would like to see the wording in paragraph 1.28 strengthened from the current position which states that the framework 'may assist' others in understanding and interpreting existing standards and developing accounting policies.

We agree that there will be rare cases in which 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, for example, where a new area of financial reporting emerges that was not envisaged when the framework was being developed. However, when the new version of the framework is finalised it is likely that there will be inconsistencies between elements of it and existing standards, some of which may be significant – we believe it is important that the IASB identifies these at an early stage and determines what action should be undertaken, including the development of a project plan. This could potentially be done at the Exposure Draft stage following this discussion paper.

We find the wording in paragraph 1.29, relating to the use of some sections by the IASB only, to be somewhat opaque, as it is not clear why the use of some aspects of the revised framework should be restricted in this way, and believe the IASB needs to provide a fuller explanation. As we have indicated above, the conceptual framework is an important tool for preparers and others involved in financial reporting, therefore we struggle to understand why some sections would be unavailable to them.

Question 2:

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

- (a) an asset is a present economic resource controlled by the entity as a result of past events.*
 - (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.*
 - (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.*
- Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?*

We agree with the new definitions which make sense from a technical perspective. Removing the notion of 'expected' from the definitions is helpful, as there are varying interpretations of what this means in practice. The term 'capable of' is a wider notion than 'expected to', therefore it is likely that a greater number of items will now meet the definition of asset or liability. This is acceptable, provided that appropriate recognition and measurement criteria are applied. As we note in our response to question 8, we do have some concerns regarding the recognition of assets and liabilities, although the discussion in Chapter 4 of relevance and faithful representation does appear to contain at least some elements of reliability without mentioning that term. The definition of economic resource, particularly 'other source of value' seems to be rather wide and could encompass items that have not traditionally been considered to be assets and liabilities. Although this may be appropriate (an example might be an internally generated intangible asset, for which it might be clear that there is a source of value for the entity), it places additional importance on the criteria to be applied in considering whether the asset should be recognised at an amount other than zero (this also links to question 3).

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 agree that the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected' as we accept that interpretations of this term can vary widely and are often tied to a notion of a threshold level of probability. The adoption of the term capable within the definition is acceptable within the context of the correct qualitative characteristics, recognition and measurement criteria being applied.

We have not addressed part (c) of the question as we believe recognition should be considered separately. Our comments on recognition are included in our response to question 8.

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 would prefer to see a conceptual discussion of what is included in profit or loss and OCI before discussing definitions of specific elements of the financial statements. It is not necessary to define cash payments and cash receipts.

Question 5:

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

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

We agree with the approach of retaining the existing definition of an obligation, including both legal and constructive obligations, and adding more guidance to help distinguish between constructive obligations and economic compulsion. Narrowing the definition of a liability to include obligations that are enforceable by legal or equivalent means would result in an incomplete representation of the economic substance of an entity's obligations, therefore is not a desirable approach. We recognise that constructive obligations are a difficult area to apply in practice, and we welcome the approach of providing additional guidance.

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 with rejecting view 1 which would result in an overly narrow interpretation of an obligation. Of the remaining two options, we favour view 2, which seems to us to most accurately reflect an entity's business model, by taking into account obligations the entity has no practical ability to avoid. Some further guidance may be required on the definition of 'practical ability' as there does appear to be some overlap with the concept of economic compulsion. Additionally, we think that further examples would be helpful, perhaps using some well-understood examples of liabilities/obligations. We do not support view 3 which could result in the recognition of 'big bath' provisions. We do not believe that it is particularly helpful for the IASB to attempt to apply the three approaches to emissions trading schemes – this is a very specific issue which should not be dealt with in a Discussion Paper about the conceptual framework.

Question 7

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

In general we find it difficult in this section to determine which material forms part of the current discussion, and which is the proposed guidance. We welcome the proposal to include some material on reporting the substance of contractual rights and contractual obligations, as we did not agree with 'substance over form' being removed as a qualitative characteristic from the 2010 framework. However, we question the positioning of the proposed guidance – 'substance over form' is a fundamental concept of financial reporting which should be given greater prominence in the conceptual framework.

Question 8

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

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

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

We agree that an asset or liability should not be recognised if doing so would provide information that is not relevant. We also agree that there should be a second criterion in determining when an item should or should not be recognised, but we think this should be the reliability of measurement rather than faithful representation. As we explain in our response to question 22, we do not agree with the replacement of reliability with faithful representation, although we acknowledge that certain elements of reliability exist in the combination of relevance and faithful representation. However, reliability is a more robust term which the IASB could define clearly to avoid confusion in its application, and would provide a stronger basis for determining whether assets and liabilities should be recognised.

We strongly disagree with the proposal that only the IASB that can determine that particular assets or liabilities should not be recognised. It is important that preparers are able to exercise judgement in determining whether assets and liabilities should be recognised, where these are not covered by a specific accounting standard.

Question 9

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

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

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

In relation to derecognition of assets and liabilities, we do not agree that the control approach and the risks-and-rewards approach are competing views, as we have observed in our responses to the IASB on other areas such as consolidations. The risks-and-rewards approach is complementary to the control approach, and an assessment of the risks and rewards should form part of the assessment of control. The concept of substance over form is a key consideration in derecognition, as a pure control approach risks focussing more on the legal form of a transaction than on the underlying economic substance. This, as has been acknowledged in the last paragraph of example 4.2 on page 78 of the discussion paper, can result in accounting that does not reflect the overall economic effect of a transaction and fails to result in faithful representation.

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?

The split between equity and liabilities should begin with what the statement of financial position is trying to show, which links to the primary users of financial statements (investors, lenders and other creditors, as described in paragraph OB2 of the existing Conceptual Framework). Existing equity shareholders are interested in the extent to which the shareholding may be diluted, and lenders and other creditors in what the other claims on the entity's cash are. Following this approach, equity would include only those instruments that will only ever be settled in equity shares (regardless of whether this is a fixed or variable number of shares). All instruments that can be settled only in cash (or where the counterparty can demand cash payment) would be included as liabilities. This would leave a category of hybrid instruments containing elements of both debt and equity i.e. which the reporting entity has an option to settle either in cash or the issue of equity instruments, which would be presented beneath net assets, but above equity. Where it is expected that these will be settled in cash, the changes in carrying amount and associated finance charges would be recognised in the income statement, while if they are expected to be settled with equity instruments, the changes in carrying amount would be recognised in the statement of changes in equity. If there was a subsequent change of circumstances (i.e. settlement to take place in the opposite form) the changes would be recycled. We believe this presentation would provide the most useful information for users of the financial statements.

We believe that equity claims should be re-measured based on a re-allocation of net assets in order clearly to present each equity instrument holder's relative interest in the entity.

Question 11

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

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

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

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

We think that a measurement objective is useful, but the IASB's proposed objective simply re-states the overall objective of financial reporting, which makes it redundant. To be useful, a measurement objective should set out the basis for determining which type of measurement should be used. It is important that the objective of measurement refers to both the decision-usefulness and the stewardship/accountability aspects of financial reporting.

We agree that a single measurement basis for all assets and liabilities may not provide the most relevant information, but it appears unnecessary to specifically limit the total number of measurement bases to be used, as there is unlikely to be a wide range of these.

The IASB has not justified the basis for determining the relevance of a measurement basis set out in (d) above, which makes it difficult to comment on this proposal. For example, it is unclear why measurement depends on 'how investors, creditors and other lenders are likely to assess how an asset or liability contributes to cash flows' as opposed to simply 'how the asset or liability will contribute to future cash flows', and whether there would be any difference between the two. This appears to be an attempt to incorporate aspects of both entity-specific and market-based measurements, but the reason for this is unclear. In general we feel the discussion paper requires a fuller debate on the relevance and usefulness of different measurement bases e.g. entity-specific versus market-based, historic versus current values, entry versus exit prices. We are supportive of a mixed measurement model based on an entity's business model, which we believe should be discussed within the measurement section.

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.

We generally agree with the IASB's preliminary views on the subsequent measurement of assets. We agree with the measurement bases proposed for assets dependent on how they are used by the entity, as this should result in information that is useful for decision-making as well as in assessing the accountability of management.

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 generally agree with the IASB's proposals on the subsequent measurement of liabilities. We believe the IASB should state the objective of cash-flow-based measurements proposed in (a) above.

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 agree that for financial assets and liabilities such as 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 useful information. The discussion paper notes that in these cases, a current market price is likely to be the most relevant measure. We would like to see a discussion of what measure should be used when there is inadequate market data available to provide a reliable measure.

Question 15:

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

We have no further comments on the discussion of measurement.

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.

In general we are supportive of the IASB's preliminary views on presentation and disclosure, and we welcome the introduction of material in the Conceptual Framework on these topics, which should provide the foundation for a more structured approach to presentation and disclosure going forward.

We agree with the approach of defining the primary financial statements and using this as the distinction between presentation and disclosure. However, we do not agree with defining presentation as a sub-set of disclosure, as is proposed in paragraph 7.11: it is more helpful to consider the two as separate concepts. In our view, the objective of the primary financial statements should make reference to the accountability aspect of financial reporting (i.e. how efficiently and effectively the entity has used its resources), as well as to decision-usefulness.

We believe that further work is required in relation to the definition and objective of disclosure: there is some confusion in the material in the discussion paper between information disclosed in the notes to the financial statements and a wider definition of disclosure, which could encompass other information such as management commentary. For example, some of the information included in table 7.1, such as the description of the business model, and the management of risks, would not necessarily be disclosed within the notes to the financial statements. The IASB needs to be clear about whether it is seeking to address disclosures in the financial statement notes only, or in a broader context. This decision would be assisted by defining the boundaries of financial reporting.

Finally, we find the material on forward-looking information somewhat confusing. Paragraph 7.39 states that forward-looking information would only be included in the notes to the financial statements if it relates to recognised assets or liabilities – this would appear to scope out disclosures of non-adjusting events after the reporting period, which we presume to be an unintended consequence.

Question 17

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

We agree with the approach of developing additional guidance on materiality outside of the Conceptual Framework, as we believe that such guidance is vital in contributing to the reduction of clutter in financial statements. We agree that the concept of materiality is appropriately described in the conceptual framework, but the problem lies in the way that the concept is applied in respect of disclosures. We think that the wording in IAS 1 which states that an entity 'need not provide a specific disclosure required by a Standard if the information is not material' is of paramount importance, and the IASB should consider whether this should be repeated within the Conceptual Framework. Additional guidance for preparers and others on materiality will be very useful, but it is also important that the IASB itself uses materiality as a guide in the preparation of new material on disclosures and in proposing new disclosure requirements in individual standards. We recommend that the IASB should have regard to, and work with, the IAASB on any guidance to be issued regarding materiality.

Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52. Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

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

We agree with the inclusion of the communication principles in the conceptual framework to provide a more structured approach for reviewing existing disclosure requirements and proposing new ones. It is important that disclosures are considered in totality and not in isolation, as excessive disclosures can obscure the key information and impair understandability of the financial statements. We agree with the communication principles proposed which we believe should assist in reducing the volume of disclosures and improving their effectiveness.

Question 19

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

Do you agree? Why or why not?

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

We support the view that the framework should require a total or subtotal for profit or loss. We agree with the arguments set out in paragraph 8.20 – profit is the most well-known and widely-used total, and is important in showing the results of an entity's business model. However, the IASB should develop a robust definition of profit or loss in order to avoid inconsistency in practice of what should, and should not, be included in this subtotal. It would not be appropriate for a total or subtotal to be required for a term which is not defined, something that the IASB has previously noted when it removed the requirement in IAS 1 for a line item for operating profit.

Question 20

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

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

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

We agree that the Conceptual Framework should permit or require some recycling, as we believe this is important to retain the concept of profit or loss. We do not think that all items of income and expense presented in OCI should be recycled into profit or loss – items should not be recycled if they would not provide relevant information in profit or loss.

Another important consideration in the debate on recycling is the presentation of recycled items within profit or loss. We believe that the presentation should enable an understanding of the reason for recycling, and where the items have been recycled to.

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 the broad approach to items that could be included in OCI (approach 2B). We agree with principles 1 and 2, which gives profit or loss prominence over OCI and require items to be reported in OCI where this is more relevant. We also agree with the approach to recycling set out in principle 3. We believe this is a practical approach which allows items currently recognised in OCI to continue to be recognised there.

Question 22

Chapters 1 and 3 of the existing Conceptual Framework Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

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

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

We continue to hold the view that stewardship (accountability) should have greater prominence as one of the objectives of financial reporting than it is currently given in Chapter 1 of the existing framework. The existing framework includes reference to the concept of accountability, but suggests that decision-usefulness is the primary objective, and that information which meets this objective will also meet the accountability objective. We do not agree that this is case, and believe that sometimes different, or additional, information is required in order to meet the accountability objective.¹ This type of information is important in providing a more complete view of an entity's financial performance and position.

¹ See the ICAS/EFRA report 'The use of information by capital providers' available from: <http://icas.org.uk/Clatworthy/>

We remain unconvinced by the IASB's justification for the replacement of 'reliability' as a qualitative characteristic of financial reporting by 'faithful representation' which we see as a weaker term. It does not encompass all of the elements that were previously included within reliability, particularly 'substance over form' and 'prudence' which we consider should both be included explicitly in the framework. We do not think that there is greater clarity in understanding and interpretation of the term 'faithful representation' therefore we do not find this a persuasive argument for the replacement of reliability. We are concerned that 'faithful representation' is a low hurdle for the inclusion of information in the financial statements – it lacks the element that means it can be relied upon, or depended on. This is one of the fundamental elements of financial reporting and has important implications in areas such as the recognition and measurement. We believe that the re-instatement of reliability into the framework would assist the IASB in determining when assets and liabilities should be recognised and in selecting the most appropriate measurement bases.

We support the calls for the IASB to re-consider the inclusion of a reference to prudence within the Conceptual Framework. We understand the problems associated with differing interpretations of 'prudence' but we believe these can be addressed by clearly defining what is meant by the term prudence, particularly by making clear what prudence does **not** mean, instead of by removing the term from the framework. Prudence, understood as the exercise of a degree of caution in the financial statements, is already clearly reflected in many standards, for example, in the treatment of expected credit losses in IFRS 9, therefore it is appropriate that it is also referenced in the conceptual framework. Prudence is an important consideration in setting recognition and measurement requirements, and not explicitly using the term risks the concept being lost from financial reporting in the future.

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?

The business model is an important concept in providing useful, relevant financial reporting and should be addressed in the conceptual framework. A number of standards already rely on an understanding of the business model – IAS 39, IFRS 8, 9 and 10 – therefore to address the concept in the framework would be a logical continuation of this approach from the IASB. We believe the business model is particularly relevant in the selection of measurement bases, and in the disclosure of information in the notes to the financial statements. We do not think a definition of the term 'business model' is necessary, rather a general description of how the business model is relevant to financial reporting would be sufficient.

Question 24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information. Do you agree? Why or why not?

We agree that the unit of account will be determined when individual standards are developed or revised, however the conceptual framework should include some high-level guidance on unit of account in order to provide a sound foundation for guidance to be included in standards. We also believe that the business model is relevant in determining the unit of account.

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?

The going concern assumption may also be relevant in presentation in the statement of financial position, that is, an item that otherwise be presented as long-term might require to be shown as short-term if there are going concern issues. It is not clear from the discussion paper what actions the IASB plans to undertake in relation to going concern, but it is important that the concept continues to be reflected in the conceptual framework. As with any guidance issued in respect of materiality, the IASB should also be cognisant of any work that the IAASB is carrying out on going concern.

Question 26

Capital maintenance

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

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

We find the discussion of the concept of capital maintenance somewhat superficial and do not agree that it should only be re-visited when there is a new or revised standard on accounting for high inflation. Capital maintenance is not relevant only in situations of high inflation, therefore merits a fuller discussion in this paper.