

23 January 2014

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

AOSSG comments on IASB Discussion Paper DP/2013/1
A Review of the Conceptual Framework for Financial Reporting

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (DP). In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asia-Oceania region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Conceptual Framework Working Group.

The AOSSG strongly supports the IASB's efforts in issuing the DP and the high priority it has given to reviewing *The Conceptual Framework for Financial Reporting* (the Conceptual Framework). The AOSSG identified the review of the Conceptual Framework as the highest priority project in its response to the IASB's Request for Views *Agenda Consultation 2011*, because the AOSSG believes that the Conceptual Framework is the cornerstone for the IASB's work in developing or revising Standards, and that the development of a robust Conceptual Framework will contribute greatly to the development of high quality and internally consistent accounting standards.

In general, the AOSSG finds that the DP is written quite well given the very short period of preparation time. However, AOSSG members have strong concerns about the following general matters:

- Some of the preliminary views presented in the DP would not be adequate to assist the IASB to develop high quality and internally consistent accounting standards, for example, in relation to the recognition criteria for assets and liabilities (refer our comments on Question 8);
- Some of the preliminary views seem to be based on current accounting conventions rather than having been arrived at on the basis of conceptual merits (for example, discussion of liabilities and equities, and recycling of other comprehensive income (OCI) (refer our comments on Questions 10 and 21);
- The presentation and disclosure section of the DP seems to merely document the accounting constructs currently employed, and it is questionable that it would satisfy the demands of financial statement users for a meaningful presentation and disclosure framework that can help streamline excessive disclosure and make information more relevant (refer our comments on Question 16); and
- Some areas (for example, the unit of account) remain almost untouched but would be of significant and pervasive importance in the standard-setting process, and warrant consideration (refer our comments on Questions 2, 7, 9, 15 and 24)

In particular, AOSSG members have found the following areas to be controversial, yet fundamental to the Conceptual Framework project:

- Whether to directly remeasure secondary equity claims (refer our comments on Question 10);
- How to determine relevant measurement bases (refer our comments on Questions 11-15);
- Whether recycling of OCI items should be required or permitted (refer our comments on Questions 19-21); and
- Whether the concepts of prudence, reliability and stewardship should be revisited (refer our comments on Question 22).

Finally, having regard to the critical importance of this project, AOSSG members strongly encourage the IASB to reach out to national standard-setters and other stakeholders before developing the Exposure Draft. This would enhance the IASB's understanding of the views and reasons expressed in comment letters, and would assist the IASB in thoroughly analysing alternative approaches. The AOSSG is willing to provide assistance in making arrangements for the IASB members and staff to interact with key stakeholders from the Asia-Oceania region.

Our views in relation to the preliminary views in DP/2013/1 are explained in more detail in the Appendix.

If you have any questions regarding any matters in this submission, please contact either one of us.

Yours sincerely,



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AOSSG Chair



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AOSSG Conceptual Framework Working Group Leader

APPENDIX – Detailed comments on DP/2013/1

Section 1 Introduction

Question 1

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

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

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

Comments on Question 1

Role of the Conceptual Framework

1. AOSSG members generally support the preliminary view in the DP that the primary purpose of the Conceptual Framework is to assist the IASB by identifying the concepts that can be used consistently when developing and revising IFRSs. However, AOSSG members offer the following comments:
 - (1) The IASB should emphasise that the Conceptual Framework is a ‘living document’ and is subject to change based on experience (or feedback) gained from the standard-setting process.
 - (2) The Conceptual Framework is useful for all those involved in the standard-setting process, not just the IASB, as it facilitates communication among stakeholders in the ‘same language’.
 - (3) Some AOSSG members suggest it might be helpful for the IASB to consider whether the reference to the *Framework* in paragraph 11(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is still necessary, considering that the IASB has added a large number of requirements as well as application materials to IFRSs since that reference was included. If the IASB decides that such a reference is still necessary, the Conceptual Framework should more explicitly state that the Conceptual Framework also assists parties other than the IASB to: (i) understand and interpret existing standards; and (ii) develop accounting policies when no standard or interpretation specifically applies to a particular transaction or event consistent with paragraph 11(b) of IAS 8.

Departure from the Conceptual Framework

2. AOSSG members generally support the preliminary view in the DP that, 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.

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3. However, some AOSSG members consider that the IASB should not use the possibility of departure only in rare cases as a justification for developing potentially weak principles in the Conceptual Framework. In this regard, these AOSSG members think that ‘rare’ is too specific and could restrict the frequency of departures from the Conceptual Framework when developing IFRSs. If the IASB commits to depart from the Conceptual Framework only in rare circumstances, the IASB might lean towards developing a more pragmatic Conceptual Framework, rather than ideal principles to accommodate evolving transactions and accounting treatments in foreseeable new or revised IFRSs. On a positive note, some AOSSG members consider the possibility of departure from the Conceptual Framework as an indication that there will be a need to revisit the Conceptual Framework regularly over time.
4. Some AOSSG members recommend that the IASB explain when and how a departure from the Conceptual Framework is made especially if the departure is not due to cost-benefit reasons.

Section 2 Elements of financial statements

Question 2

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

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

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

Comments on Question 2

5. Most AOSSG members generally support the proposed definitions of an asset, a liability, and an economic resource stated in the DP.

Definition of a ‘liability’

6. Some AOSSG members believe that the definition of a liability should be modified to address issues that have arisen from certain instruments that oblige an entity to transfer economic resources only because they have redemption features or embedded put options but otherwise exhibit the common characteristics of equity instruments, and to capture in-substance liabilities in the absence of an obligation to transfer economic resources, such as obligations to be fulfilled by the issuance of an entity’s own equity instruments as ‘currency’. Paragraph 36 of this submission provides more detail.

Definition of an ‘economic resource’

7. Some AOSSG members offer the following comments:

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- (1) The definition of an economic resource should be considered in combination with the concept of the ‘unit of account’. If the IASB were to clarify that an economic resource is a right, or other source of value, that is capable of producing economic benefits (rather than, for example, a physical asset itself), it would be significantly difficult to determine whether a bundle of rights should be accounted for together (or separately) without a robust discussion about the ‘unit of account’.
- (2) Having witnessed the various interpretations provided by respondents to the IASB ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*, the IASB should consider clarifying the term ‘economic benefits’ in the Conceptual Framework.
- (3) It is not sufficiently clear whether the ‘right’ and ‘other source of value’ are meant to be used interchangeably or have different meanings. It would be helpful if the IASB clarifies whether, and if so, how they are different.

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 liability exists. If there could be significant uncertainty about whether a particular type of asset or a 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?

Comments on Question 3

Deleting the term ‘expected’ from definitions of an asset and a liability

8. AOSSG members generally support the preliminary view in the DP that the definitions of assets and liabilities should not retain the notion that an inflow or outflow is ‘expected’.

Existence uncertainty

9. AOSSG members generally support the preliminary view in the DP that the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or liability exists. AOSSG members generally feel that such rare circumstances could be better dealt with at a Standards level.

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Recognition criteria

10. For various reasons, most AOSSG members strongly disagree with the preliminary view in the DP that the recognition criteria should not retain the existing reference to ‘probability’. The reasons include the following:

- (1) If the probable threshold were to be eliminated, virtually all litigation claims could be measured using an expected value, which would be very misleading to financial statement users. Accordingly, the probable threshold in the existing Conceptual Framework should be retained in the recognition criteria. In connection with this, some AOSSG members recommend that ‘probable’ is defined as ‘more likely than not’, while other members are of the view that it is not appropriate to define the term in the Conceptual Framework.
- (2) It may not *always* be appropriate to use a ‘probability’ notion as part of recognition criteria, including the case where the distribution of the probabilities of something occurring is not known to third parties (for example, a written option). Nevertheless, in many cases, including litigation, the probable threshold would be appropriate because it would filter out liabilities the measurement of which on an expected value basis, would usually differ from the ultimate cash outflows.
- (3) Recognising items arising from outcomes with a remote chance of occurring would detract from the other recognised items in financial statements. In addition, recognising all rights and obligations regardless of the probability of outcomes might require entities to search ‘endlessly’ for potential rights and obligations.
- (4) The IASB’s concerns with retaining a ‘probable’ criterion for recognition seem, at least in part, to focus on the range of assets and liabilities in respect of which it might be less than probable that an ‘ultimate inflow or outflow’ of economic benefits will occur (and that, consequently, would not qualify for recognition if that criterion were used) (refer paragraph 2.35(c) of the DP). However, focusing on whether it is probable that an ‘ultimate inflow or outflow’ of economic benefits will occur seems much more restrictive than the ‘probable’ criterion in paragraph 4.38(a) of the existing Conceptual Framework, which refers to whether “it is probable that *any future economic benefit associated with the item* will flow to or from the entity” (emphasis added). Focusing only on the probability of an ‘ultimate inflow or outflow’ of economic benefits and disregarding a probable inflow or outflow of economic benefits that would result from receiving or providing a service of standing ready (for example, standing ready to meet any insurance claim or warranty claim that may arise under a contract with a customer) might lead to non-recognition of assets and liabilities that would qualify for recognition if the ‘probable’ criterion in paragraph 4.38(a) of the existing Conceptual Framework were applied. Therefore, the DP seems to overstate the range of assets and liabilities that would be filtered from recognition by the existing ‘probable’ criterion.

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.

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

Comments on Question 4

Elements for statements of profit or loss and OCI

11. Many AOSSG members believe that terms such as ‘profit or loss’ and ‘OCI’ should be defined as elements of financial statements. These members believe that defining ‘profit or loss’ as an element is important, because presentation of the item is essential to meet the objective of financial reporting.
12. However, other AOSSG members do not regard ‘profit or loss’ as a separate element of financial statements, although they have no problem with presenting ‘profit or loss’ as one of various possible metrics in financial statements. In other words, they regard ‘profit or loss’ as one of the sub-totals of particular items of other elements (income and expenses), and therefore a matter of presentation rather than definition.

Elements for statements of cash flows

13. Some AOSSG members believe that terms such as ‘cash receipts’ and ‘cash payments’ should not be defined as elements of financial statements for the following reasons:
 - (1) The proposed definitions would be inconsistent with the presentation of the statements of cash flows under the indirect method, and would give rise to a misunderstanding that the IASB still wishes to adopt the ‘direct method’ for the statement of cash flows.
 - (2) Considering that cash is a sub-set of another element (that is, assets), defining cash flows as elements would imply defining other sub-sets of assets (such as ‘current assets’), or movements therein, as separate elements. These members consider that this would be inappropriate.

Elements of statements of changes in equity

14. Some AOSSG members believe that it is unnecessary to define ‘transfers between classes of equity’ as a possible element of the statement of changes in equity, considering the discussion in Section 5 of the DP.

Section 3 Additional guidance to support the asset and liability definitions

Question 5

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

Do you agree with this preliminary view? If not, why not?

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Comments on Question 5

15. Most AOSSG members agree with the preliminary view in the DP to retain the existing definition of a liability, which encompasses both legal and constructive obligations. This is primarily because if the definition of a liability is limited only to obligations that are enforceable by legal or equivalent means, such a definition will not be able to capture the obligations for which an entity has no practical ability to avoid. Having said that, some AOSSG members offer the following comments:
- (1) The interaction and difference between the concepts of ‘economic compulsion’ and ‘constructive obligation’ should be explained in the Conceptual Framework, especially regarding whether both concepts can be used for financial and non-financial liabilities.
 - (2) The interaction between the concepts of ‘constructive obligation’ and ‘conditional obligation’ should be explained in the Conceptual Framework. For example, if a constructive obligation to pay a bonus to employees is determined to exist for an entity based on the entity’s past pattern of paying bonuses, and such a bonus would become payable only when employees have worked for a five-year period, that constructive obligation is conditional until that period is completed. The DP does not explain how such a situation should be accounted for.
 - (3) The interaction between the concepts of ‘constructive obligation’ and ‘practically unconditional’ under View 2 in the DP should be explained in the Conceptual Framework, if the IASB were to retain the concept stated as View 2 in the revised Conceptual Framework. For example, a constructive obligation is likely to exist for past services rendered since employees could *reasonably rely* on the entity to pay the special bonus as a result of its past actions. However, one could consider that the entity has a *practical ability to avoid* payment, and hence conclude a present obligation does not exist.
 - (4) Further analysis should be considered such as whether a constructive obligation could also exist when circumstances other than an entity’s past actions have caused other parties to reasonably rely on the entity to act in a certain way, such that those parties would benefit (or would not suffer loss or harm) and, as a result, created a duty or responsibility on the entity to undertake that particular action. This includes the case where the industry practice (not necessarily the entity’s past practice) creates a reasonable expectation that a bonus will be paid to employees when certain conditions are met.
16. In contrast to the comments in paragraph 15 above, some other members believe that a present obligation must be enforceable against the entity, and unenforceable ‘constructive obligations’ should be excluded from the definition of a liability. This is because an entity cannot be obliged to transfer an economic resource if the obligations are unenforceable. In this context, these members believe that ‘enforceable’ does not only mean ‘legally enforceable’ (as ‘enforceable’ is sometimes interpreted). It includes implicit obligations and equitable obligations that are enforceable, and obligations enforceable through religious customs or sanctions. These AOSSG members are concerned that unenforceable obligations are inherently indistinguishable from economic compulsion. If economic compulsion were implicitly treated as being, of itself, sufficient for a present obligation to exist, it would be logical for present obligations to be identified in respect of intentions to pay salaries for future

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services by employees, intentions to repair or replace assets essential to the entity's future operations, and intentions to undertake staff training to comply with industry regulations.

17. Furthermore, some AOSSG members offer the following comments:

- (1) Paragraph 3.5(b) of the DP acknowledges that economic resources include rights arising from a constructive obligation of another party (these could be referred to as 'constructive rights'), but there is barely any further discussion of this type of economic resource. Further discussion in this regard would be helpful to address potential tension between the 'constructive' concept and the 'control' notion in the asset definition.
- (2) It would be useful to clarify what role the concept of 'economic compulsion' would play in determining whether a liability exists. For example, much of the discussion relating to Views 1 to 3 could alternatively be explained by addressing the concept (refer our comments on economic compulsion in paragraphs 15(1) and 16 above).

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.

Comments on Question 6

18. Among the three options, most AOSSG members prefer View 2 for the following reasons:

- (1) Although View 1 is conducive to improving the comparability of financial statements across entities, it is likely to fail to faithfully represent transactions and events, as the scope of a liability would be too narrow. In addition, it may give rise to structuring opportunities through incorporation of artificial conditions in contracts.
- (2) View 2 is more consistent with the control model introduced in IFRS 10 *Consolidated Financial Statements*, which requires that the practical ability should be considered to

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ascertain substantive rights in assessing whether control exists. However, the use of the ‘going concern’ concept would not be appropriate in determining whether there is a practical ability for an entity. This is because an entity may have various operations and, even if an entity were to cease operation in its major business line (for example, railways operation), it can still survive by continuing operations in other business lines (also refer our comments in paragraph 97 of this submission).

19. In addition to the comments stated in the previous paragraph, some AOSSG members suggest considering the following possible alternative approaches (besides those suggested in the DP):
- (1) An approach based on the principle that a present obligation must be enforceable against the entity (as mentioned in paragraph 16 above).
 - (2) An approach that is broader than View 3. Under this approach, for a liability to be recognised, a present obligation must have arisen from a past event, but such an event may be conditional on future actions of the entity or of *others*, or *on the resolution of some events*.
 - (3) An approach that focuses on determining whether or not there is a present claim on the entity’s assets (rather than whether or not future cash outflows are expected to occur or must occur):
 - (i) View 1A: A present claim against the assets must exist at balance sheet date, irrespective of whether or not it is probable or certain that the entity will settle the claim in the future.
 - (ii) View 2A: A present legal or constructive obligation must be practically unconditional and exclude amounts that are wholly (or substantially) based on future activities of the entity, such as future revenues or profits.
 - (4) An approach that uses a threshold that corresponds to the ‘reasonably rely’ threshold for ‘unconditional’ constructive obligations, such as ‘no reasonable ability to avoid’. Arguably, such a threshold would consider an entity’s likelihood of acting upon or abstaining from the future action more realistically than the three views in the DP, thereby resulting in an outcome that better reflects the underlying economic reality. Furthermore, there are conceptual merits in applying similar principles to all in-substance similar obligations, whether they are legal or constructive obligations that depend on an entity’s future actions or ‘unconditional’ constructive obligations, for all such obligations in respect of which the entity has the unilateral right (whether or not through its future actions) to avoid the transfer of economic resources.
20. Regardless of which view to take, some members are concerned with the insufficiently robust discussions and potential tension points as to which activity would result in a ‘past event’. This issue is particularly important when an obligation to transfer an economic resource is incurred as a result of an entity conducting *more than one activity* at different points in time. For example, a government may impose a levy on entities that supply electricity to a domestic energy market on 31 December each year, and the levy is determined as a percentage of the operator’s revenue during the year. In this example, the ‘past event’ may be interpreted to mean the occurrence of:

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- (1) The entity operating in the electricity market on 31 December, which is based on the interpretation that a past event refers to *a specified activity* for which another party can seek payment from the entity (refer paragraph 3.65 of the DP);
- (2) The entity having generated revenue during the year, which is based on the interpretation that a past event refers to *any activity* that contributes to other party's right to seek payment from the entity (refer paragraph 3.65 of the DP); or
- (3) The entity having generated revenue during the year and the entity operating in the electricity market on December 31 of that year, which is based on the interpretation that a past event refers to *an activity that determines the amount of a liability* (refer paragraph 3.66 of the DP).

These members recommend that the Conceptual Framework should include clearer principles to address the above issues.

Question 7

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

Comments on Question 7

21. Paragraph 3.110(a) of the DP explains that, in principle, a net asset or a net liability arises under an executory contract if the contract is enforceable. In addition, paragraph 3.110 (c) of the DP explains that, depending on the circumstances, the purchaser may have either: (i) a single net right or net obligation to exchange the underlying asset and the purchase price simultaneously; or (ii) a separate gross right to receive the asset and a separate gross obligation to pay the purchase price. However, the DP does not provide guidance on when 'a net single right or obligation' (as opposed to a gross right and obligation) arises under such a contract.
22. Some AOSSG members think this has important implications for the use of judgment in the standard-setting process, having witnessed the different views in relation to when a separate right and obligation should be accounted for as a single 'unit of account' in the IASB's standard-setting. Therefore, these AOSSG members encourage the IASB to explore the 'unit of account' further in the Conceptual Framework project (refer our comments on Question 24).

Section 4 Recognition and derecognition

Question 8

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

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

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(b) no measure of the asset (or the liability) would result in a faithful representation of the asset (or the liability) and of 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?

Comments on Question 8

23. As stated in our response to Question 3, for various reasons, most AOSSG members strongly disagree with the preliminary view in the DP that the recognition criteria should not retain the existing reference to ‘probability’. Refer paragraph 10 for more details.
24. Some AOSSG members agree with the IASB’s preliminary view that a probability threshold should be eliminated, and that all assets and liabilities should be recognised unless the conditions for non-recognition in paragraph 4.25 of the DP are satisfied. Therefore, they suggest that these conditions should be stipulated in the revised Conceptual Framework (rather than to be determined by the IASB at the Standards level). This is because, unless such conditions are explicitly stated in the Conceptual Framework, there is a greater risk that the IASB would not specify such conditions in a Standard; thereby an entity would be required to search extensively for potential rights and obligations that would otherwise meet the proposed non-recognition criteria. Some AOSSG members feel that insufficient discipline is provided in paragraphs 4.25 and 4.26 of the DP for the following reasons:
- (1) Paragraph 4.25 of the DP states that the IASB *might* decide that an entity need not, or should not, recognise an asset or a liability, when the information does not pass the tests of ‘relevance’ and ‘faithful representation’. However, it would seem that the IASB *must* prohibit an entity from recognising the asset or the liability, when such tests are not met, because information would not be useful unless these tests are met.
 - (2) The proposed recognition criteria are not sufficiently robust. They could be interpreted to justify an argument that an asset or a liability should be recognised as long as it meets the definition. This is because the concepts of ‘relevance’ and ‘faithful representation’ are likely to be neglected in the standard-setting process due to their very subjective nature.
25. Furthermore, some AOSSG members believe that ‘relevance’ should be a qualitative characteristic of the information produced as a result of the measurement basis used to measure a recognised asset rather than an attribute of recognition (that is, the question of relevance is not about whether or not to recognise an asset, it is rather about how to measure the recognised asset in a way that results in information relevant to users’ decisions). Therefore, these members support retaining the ‘probability of outcome’ as a recognition criterion. In addition, these members disagree with the DP in its use of internally generated goodwill as an example of an unrecognised asset because it lacks relevance (paragraph 4.9(c) of the DP). In their view, internally generated goodwill fails both of the recognition criteria in the existing Conceptual Framework (that is, probability of the flow of economic benefits and reliability of the measurement).

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

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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?

Comments on Question 9

- 26. AOSSG members generally agree with the preliminary view in the DP that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria (that is, to adopt the ‘control approach’).
- 27. Some AOSSG members understand the challenges in formulating explicit principles for derecognition of assets and liabilities, and agree with the IASB’s preliminary view in the DP that 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 should best portray the changes that resulted from the transaction.
- 28. However, other members are not convinced with the IASB’s preliminary view, and consider that the Conceptual Framework should contain robust overarching derecognition principles because that preliminary view relies too much on judgement at an individual standard level. These members believe that development of a principle about how to determine the unit of account is the key to developing a robust derecognition principles.
- 29. In addition, some AOSSG members offer the following comments:
 - (1) Principles as to whether to follow a ‘control approach’ or a ‘risk-and-rewards approach’ and how they relate to each other should be more clearly articulated in the Conceptual Framework. In doing so, application of the ‘unit of account’ concept should be explored in parallel.
 - (2) Rather than relying on enhanced disclosures and separate presentation, for a transaction involving derecognition of some components of an asset or a liability:
 - (i) The partial derecognition approach should be applied in respect of any components of an asset or a liability that are retained by the entity (a component of an asset or a liability should not be treated as being retained if its character has changed significantly); and
 - (ii) The full derecognition approach should be applied to all other components, with initial recognition of the new or substantially different rights or obligations arising from the transaction.

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

Question 10

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

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

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

Comments on Question 10

Overall comments

30. While the emphasis given varies, most AOSSG members disagree with the preliminary views in the DP for various reasons, including the following:
- (1) The focus given to determining how to separate the claim against an entity (that is to show: (i) the *solvency* of an entity; and (ii) the *effect of dilution* to the primary equity claim) is not appropriate (refer also paragraph 32 below).
 - (2) A proposal to retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities does not work well to address the concerns stated in the DP.
 - (3) The notion of ‘wealth transfer’ and need for remeasuring secondary equity claims are questionable.

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31. Regardless of the preferred approaches, most AOSSG members strongly disagree with directly remeasuring secondary equity claims, because:
- (1) It is unclear what the residual amounts (that is, primary equity claims) would represent after deducting the current value of the secondary equity claims.
 - (2) Remeasuring equity warrants may give rise to an outcome that does not reflect economic reality, because the residual amount of equity (that is, primary equity claims) would decrease when the share price increases due to the surge in the value of equity warrants (however, in that case, the value attributed to holders of ordinary shares should have increased). This concern could only be overcome by remeasuring all equity interests to their current market value, the sum of which would not equal the entity's recognised net assets, which AOSSG members do not advocate.
 - (3) The objectives of financial information stated in paragraphs OB2-OB4 of the Conceptual Framework do not necessitate showing the effect of dilution in the equity section.
 - (4) There are significant practical difficulties on how to remeasure some parts of equity, and the benefits from remeasuring some parts of equity do not outweigh the cost of doing so.
 - (5) It conflicts with the general principle that an entity's financial statements depict economic phenomena affecting the entity, and not economic phenomena affecting other parties only. No changes in the entity's assets or liabilities, or future cash flows, occur as a result of changes in the value of its equity instruments to equity holders.
32. Some members disagree with the preliminary views stated in paragraphs (a)-(c) of Question 10, because they believe that claims against the entity should be separated in light of: (i) determining *whether a transaction should give rise to income or expense* (rather than being accounted for as changes in equity); and (ii) assessment of the *solvency* of an entity, giving particular focus to the former. In contrast, the preliminary view in the DP seems to give particular focus on showing: (i) the *solvency* of an entity; and (ii) the *effect of dilution* on the primary equity claim. These members suggest that a combination of the 'narrow equity approach' and the 'strict obligation approach' would be helpful, because the former approach is conducive to the determination of whether a transaction should give rise to income or expense, while the latter approach is conducive to the assessment of solvency. Yet this approach would result in the three 'categories' for the presentation of claims, consisting sections for liabilities, mezzanine claims and equities.

Specific comments

33. Many AOSSG members agree with the preliminary view stated in paragraph (b)(ii) of Question 10 that the requirement to make payments that would arise only on liquidation would not meet the definition of a present obligation. This is because, as paragraph 3.89(a) of the DP explains, financial statements are normally presented on the assumption that an entity is a going concern, and will continue to operate for the foreseeable future.
34. On the contrary, some other members disagree with the preliminary view in the DP that obligations that will arise only on liquidation of the reporting entity are not liabilities. Those members argue that the central point in defining a liability is the existence of an obligation at the reporting date that arises from past events, and these members believe that the timing of payment is not relevant to the definition as long as there will be a payment in the future. In addition, those members are of the view that using the example of payment to ordinary

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shareholders is not appropriate since the payment to ordinary shareholders on liquidation is the application of the notion of ‘residual interest’ as opposed to ‘obligation’.

35. Members’ views were mixed regarding the preliminary view in paragraph 5.57 of the DP that the revised Conceptual Framework should indicate that an entity should treat some obligations that oblige the issuer to deliver economic resources as if they were equity instruments. Some members believe that this clarification is helpful. However, others disagree with the preliminary view and feel that unless an instrument can only be exercised upon liquidation of the entity, the conceptual alternatives that should be considered are either:
- (1) bifurcation into its liability and equity components; or
 - (2) a dual approach under which the instrument is either classified entirely as equity if the option is puttable at fair value, or bifurcated into liability and equity components if the option is not puttable at fair value.
36. Some AOSSG members think that, building on the notion that equity is a residual element in the statement of financial position, equity could arguably exhibit characteristics such as participation in net assets (for example pro-rata share of net assets and net income/expense) and loss absorption features. As such, certain instruments that oblige an entity to transfer economic resources only because of redemption features (mandatorily or at the option of holders) or embedded put options would have characteristics that are otherwise consistent with a residual interest. Therefore, the definition of liability should be refined to address possible classification issues relating to redeemable or puttable instruments that would otherwise exhibit the common characteristics of equity instruments. These members also consider that the definition of liability should be refined to capture in-substance liabilities in the absence of an obligation to transfer economic resources, such as obligations to be fulfilled by the issuance of an entity’s own equity instruments as ‘currency’.

Section 6 Measurement

Question 11

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

- (a) the objective of measurement is to contribute to the faithful representation of relevant information about (i) the resources of the entity, claims against the entity and changes in resources and claims, and (ii) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources;**
- (b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;**
- (c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;**

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- (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?

Comments on Question 11

Overall comments

37. Many AOSSG members generally support the IASB's preliminary views stated in paragraphs (a)-(f) of Question 11, including the statement in principle (b) that a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements. In addition, these members generally feel that principles (c) and (d) are helpful in determining relevant measurement bases for assets and liabilities.
38. However, some members strongly disagree with principle (b) because they believe that the Conceptual Framework should include measurement concepts that would result in measurements possessing the following qualities:
- (1) The amounts can meaningfully be added, subtracted and compared; and
 - (2) Their economic significance, individually and collectively, is capable of being understood.
39. To achieve the goals in (1) and (2) immediately above, these members believe that measurements must have a common property and that this would require identifying an ideal concept of wealth. These members are of the view that the ideal measurement basis for a particular asset would not depend on how investors, creditors and other lenders are likely to assess how an asset of that type will contribute to future cash flows (that is, whether it will contribute *directly or indirectly* to future cash flows), and disagree with principle (d)(i).

Objective of measurement

40. The IASB's preliminary view is that 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. While some AOSSG members agree with this preliminary view, some other AOSSG members believe that the Conceptual Framework should specify separate and distinct measurement objectives for the statement of financial position and the statement of profit or loss and OCI.

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41. Some AOSSG members note that the relevance of a particular measurement will also depend on whether it allows investors, lenders and other creditors to assess how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. For example, if an entity decides to acquire real estate for investment purposes, then investors, lenders and other creditors would benefit from learning the fair value of the property not only for the sake of knowing how the asset will contribute to future cash flows, but also to be able to assess whether management made the right decision in acquiring the property (that is, an increase in the fair value of the property could be interpreted as a good management decision).
42. In addition, some members believe that further consideration should be given to whether the two objectives of measurement (that is, decision usefulness for users and fulfilling the accountability of management) have an equal priority. If that is the case, the IASB may want to reconsider the hierarchy of 'stewardship (or accountability)' in the objective section of the Conceptual Framework.

Relevance of a particular measurement

43. The DP states as the IASB's preliminary view that the selection of a measurement basis (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. Some members believe that the concept of the 'business model' can play a role in determining how a particular asset contributes to future cash flows or how an entity will settle or fulfil that liability (including when an asset contributes to future cash flows or a liability will be settled or fulfilled *in more than one way*); thereby providing a foundation to identify an appropriate measurement basis (or appropriate measurement bases) that best reflects the economic reality of an asset or a liability vis-à-vis the operations of the reporting entity.

Number of different measurements used

44. The DP states as the IASB's preliminary view that the number of different measurement bases used should be the smallest number necessary to provide relevant information. Although it is desirable not to use too many different measurement bases, AOSSG members believe that setting any arbitrary goal regarding the number of measurement bases is undesirable. If the IASB were to develop a robust decision framework that helps in determining the appropriate measurement bases for assets and liabilities, by definition there would not be too large a number of measurement bases used.

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.**

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- (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.

Comments on Question 12

45. Most AOSSG members support the IASB's preliminary views regarding how to determine relevant measurement bases of assets. These members believe that considering how an asset will contribute to future cash flows is relevant to the objective of assessing the amount, timing and uncertainty of future net cash inflows to an entity (paragraph OB3 of the Conceptual Framework).
46. However, some other members strongly disagree with the IASB's preliminary views, primarily because:
- (1) Identifying an ideal concept of wealth would not involve measuring assets according to whether they are expected to contribute directly or indirectly to future cash flows; and
 - (2) An entity's capacity to provide cash to investors and creditors is not limited to its economic resources that directly generate cash inflows.
47. Furthermore, some AOSSG members believe that a stronger linkage should be created between the discussion about measurement and profit or loss/OCI. In doing so, these members believe that the IASB should acknowledge that differences may exist between measurement bases relevant for the statement of financial position and those relevant for the statement of profit or loss and OCI, although in most cases they would be the same.
48. Additionally, some AOSSG members offer the following comments:
- (1) In relation to category (b) in Question 12: The scoping of this category should be clarified, such that it only applies to assets held for trading purposes.
 - (2) In relation to category (c) in Question 12: The description of this category should be modified to acknowledge the situations where: (i) an entity holds assets for collection or for sale; and (ii) an entity may charge for the use of assets or sell them (that is, assets with hybrid purposes). In such situations, the use of a current measure would be relevant for the statement of financial position, but a cost-based measure would be relevant for the statement of profit or loss and OCI; therefore, the use of OCI would be necessary.
 - (3) In relation to category (d) in Question 12: The discussion is rather weak, and should be reconsidered. Since the manner in which the charge-for-use assets contribute to future cash flows is the same regardless of whether such items are significant, there appears no conceptual basis for using a different measurement between high-value and low-value items.

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:

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- (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.

Comments on Question 13

49. For reasons similar to those expressed in paragraph 45 of this submission, AOSSG members generally support the IASB's preliminary views for determining relevant measurement bases for liabilities.
50. However, some AOSSG members disagree with the IASB's preliminary view for similar reasons to those expressed in paragraph 46(1) of this submission.
51. For liabilities with stated terms but highly uncertain settlement amounts that have not yet been determined, some AOSSG members think that the explanation should be modified to acknowledge that there are situations in which different measurement bases should be used for the statement of financial position and the statement of profit or loss and OCI (the difference may be whether inputs should be updated or not at each reporting date).

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 (ie the asset or the liability is highly leveraged).**

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

Comments on Question 14

52. Most AOSSG members agree with the preliminary view in the DP 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

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fulfilled, may not provide information that is useful when assessing prospects for future cash flows.

53. However, some members disagree with paragraph 6.19 of the DP, because they believe that some exceptions discussed in the DP are not necessarily exceptions to the general principle. For example, derivatives (except for those held for hedging purposes) are presumed to be held with a view to benefiting from an appreciation in their fair value, and the current market price is considered to be relevant in light of reporting information about financial performance and financial condition.
54. Yet some other members disagree with paragraph 6.19 of the DP for reasons similar to those stated in paragraph 46 of this submission. They agree that historical cost-based information would not be useful (compared with current market prices) for assessing cash flow prospects for the financial assets and financial liabilities referred to in paragraph 6.19 of the DP, but hold this view in relation to all assets and liabilities.

Question 15

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

Comments on Question 15

55. Some AOSSG members note that the ‘unit of account’ is a very important concept in determining how measurement bases of assets and liabilities should be determined. These members recommend that the IASB consider how the unit of account should be determined when developing the Exposure Draft.
56. Some other AOSSG members note that the DP does not address when and how the various factors of cash-flow-based measurements should be considered for inclusion in such measurements. In the absence of broad principles in the Conceptual Framework, differences across Standards would continue to exist and diversity in practice could emerge for transactions that are not dealt with by specific IFRSs. The loosely defined ‘cash-flow-based measurement’ and the existing variants also bring into question whether removing any component(s) of a cash-flow-based measurement would still result in a ‘meaningful, understandable and clearly describable’ measure under Approach 2A to OCI discussed in section 8 of the DP, and allow the removed component(s) to be presented in OCI as a bridging item. These members therefore recommend that the IASB establishes principles in the Conceptual Framework on when and how the various factors should be considered when determining an appropriate cash-flow-based measurement.
57. In addition, some other AOSSG members recommend that the Conceptual Framework discusses the issue of foreign currency translation because some countries that are exposed to a great deal of foreign currency risk share the idea that changes in the existing foreign currency translation accounting are needed. However, more in-depth discussion regarding the issue has not been easy due to the fact that the measurement attributes of translations are not clearly articulated in IFRSs. Therefore, these members believe that it would be helpful if the Conceptual Framework clearly describes the nature of the foreign currency translation accounting (at least, whether it is part of remeasurement or not). If foreign currency translation accounting is not part of measurement, the Conceptual Framework may identify the attribute of foreign currency translation as a ‘simple denomination’.

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58. Furthermore, as part of their research initiative, these members identified three potential views about the nature of foreign currency translation. Those views and their possible consequences are:

- (1) **View 1:** Foreign currency translation is a mechanical conversion, separate from measuring a foreign currency transaction in a foreign currency. If View 1 is taken, exchange differences should not be recognised in profit or loss because exchange differences would not represent any result from an entity's financial performance.
- (2) **View 2:** Foreign currency translation is a measurement, separate from measuring a foreign currency transaction in a foreign currency. If View 2 is taken, the standard on foreign currency translation needs to be aligned with IFRS 13 *Fair Value Measurement* since foreign currency translation is considered to be fair value measurement of an exposure to foreign currency risk.
- (3) **View 3:** Foreign currency translation is a measurement, inseparable from measuring a foreign currency transaction in a foreign currency. If View 3 is taken, the measurement basis used in the functional currency should be the same as that used in a foreign currency because it is a single measurement process. For example, foreign currency items measured at historical cost should accordingly, be translated using the historical exchange rate, whereas those measured at fair value should be translated using the spot rate.

Section 7 Presentation and disclosure—general

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 the primary financial statements;**
 - (iii) **classification and aggregation;**

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- (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.

Comments on Question 16

General comments

59. Some AOSSG members believe that this section of the DP merely documents the accounting constructs currently employed, and would be unlikely to satisfy the demands of users of financial reports for a meaningful disclosure and presentation framework and their demands to streamline excessive disclosure and make information more relevant. These members believe it is important to explain how to determine disclosures that more directly and efficiently link with the objective of financial reporting. Additionally, they believe it is difficult to gain an overview of the principles that might complement this section until the IASB's future work on its 'Disclosure Initiative' is substantially progressed.
60. Some AOSSG members believe that the global adoption of IFRS is creating challenges regarding how to meet the information needs of the primary users since the primary users in different jurisdictions might have different information needs that are linked to their cultural values and substantially affect their decision making. To meet such a challenge, these members suggest that the Conceptual Framework should explicitly acknowledge that meeting the objective of financial reporting may require additional disclosures that fulfil the information needs of primary users in specific jurisdictions.

Presentation in the primary financial statements

61. With regard to presentation in the primary financial statements, many AOSSG members generally agree with the IASB's preliminary views stated in Question 16. However, some members offer the following comments:
- (1) The concept of 'linked-presentation' should be discussed in the Conceptual Framework, because it would help an entity to present the economic relationship between some transactions (for example, hedging relationships) as well as management intentions more clearly.
 - (2) It should be clarified that the statement of cash flows does not have equal priority with the statement of financial position and the statement of profit or loss and OCI, because paragraph OB 17 of the Conceptual Framework already explains that financial performance reflected by accrual accounting provides a better basis for assessing the entity's past and future performance than information solely based on cash receipts and payments during the period.

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Disclosure in the notes to the financial statements

62. With regard to disclosure in the notes to financial statements, many AOSSG members generally agree with the IASB's preliminary views stated in Question 16. However, some members offer the following comments:

- (1) What should be included in the notes to financial statements should be analysed in more detail, by breaking down into types of disclosure at a more granular level. It may be possible to classify them, taking into account the following factors:
 - (i) Whether relevant transactions or events are recognised in the primary financial statements;
 - (ii) Whether relevant transactions or events occur before the end of financial reporting period; and
 - (iii) Whether an estimate is required in measurement.
- (2) It may be helpful to clarify that the nature and extent of disclosure should differ, depending on the extent of outcome uncertainties.
- (3) Cost-benefit considerations should be included in the Disclosure chapter, if the IASB decides to make cost-benefit considerations explicit in other chapters.
- (4) Some of the discussion, including a catalogue of disclosure items, is too detailed to be included in the Conceptual Framework, and they may well be placed outside the Conceptual Framework.

Other comments

63. The DP does not include discussion about the management commentary, because it focuses on discussion about information presented in financial statements. Some AOSSG members believe that the scope of discussion should be expanded to cover this sort of financial report, because management commentary is one of the most important ways to communicate information about the entity to financial statement users.

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?

Comments on Question 17

64. AOSSG members generally agree with the IASB's preliminary view that the concept of 'materiality' is clearly described in the Conceptual Framework.
65. However, it would be helpful if the IASB could in cooperation with the International Auditing and Assurance Standards Board (IAASB) and the International Organisation of Securities Commissions (IOSCO) develop educational material regarding the concept of 'materiality', because it is commonly used in preparing and auditing financial statements.

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66. In particular, it would be helpful if the educational material explains how to apply the concept of materiality to qualitative (or non-quantitative) disclosures. In addition, it might be helpful to clarify whether, and if so how, different materiality thresholds could be applied to items presented in primary financial statements and those disclosed in the notes to the financial statements. That said, AOSSG members caution that educational material should avoid the risk of illustrating quantitative thresholds that could be construed as bright lines.

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?

Comments on Question 18

67. AOSSG members generally agree that the proposed communication principles provide helpful reference, but believe that some of the principles should not be part of the Conceptual Framework.

68. Some AOSSG members offer the following additional comments:

- (1) Paragraph 7.50(a) states that disclosure should be ‘entity-specific.’ Although this is important for promoting high quality financial reporting, this is an application issue that reporting entities and regulators should address, rather than a standards issue that standard-setters should address.
- (2) Paragraph 7.50(c) says disclosure guidance should enable an entity to determine the preferable order of disclosures in the financial statements. Although this is important, this may be better dealt within IAS 1 *Presentation of Financial Statements*.

Section 8 Profit or loss and other comprehensive income (OCI)

Question 19

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

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

Comments on Question 19

General comments

69. AOSSG members believe that there should be a clear principle with robust reasoning for the presentation of ‘profit or loss’ and the use of ‘OCI’.

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70. Most AOSSG members believe that ‘profit or loss’ should be presented in the statement of profit or loss and OCI, and that ‘profit or loss’ should also be defined as one of the elements of financial statements.
71. Some AOSSG members suggest that ‘profit or loss’ should be defined as follows:
- Profit or loss** is the change in net assets during a period except those changes resulting from transactions with owners in their capacity as owners, whereby the recognised assets and liabilities comprising the net assets are measured using measurement bases that are relevant from the perspective of reporting the entity’s *financial performance*.
72. In this context, comprehensive income can be defined consistently with ‘profit or loss’, but its definition can be modified to read “Comprehensive income is the change in net assets during a period except those changes resulting from transactions with owners in their capacity as owners, whereby the recognised assets and liabilities comprising the net assets are measured using measurement bases that are relevant from the perspective of reporting changes in the entity’s *financial position*”. In connection with the above definition, it may be explained that OCI is the ‘*linkage factor*’ between ‘profit or loss’ and ‘comprehensive income’.
73. Some other AOSSG members also suggest another approach to OCI by developing an appropriate, robust and operational definition of profit or loss in terms of financial performance, which would then logically guide the recognition of OCI items and the timing of OCI recycling. In their view, the current thinking in the DP that profit or loss, is the primary indicator of the return made on resources, and the use of the ‘business model’ concept to determine what information should be included in profit or loss (based on how resources have been used under the business model during the period) could be a plausible starting point for further work on this area.
74. However, some other members disagree with the preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss as providing the primary source of information about an entity’s return on its economic resources. These members believe that, rather than adopting a binary classification of comprehensive income, a multi-faceted disaggregation of comprehensive income should be adopted, based on differentiated implications for the predictive ability of future cash flows.

Other comments

75. Some AOSSG members, in addition to considering it necessary to define ‘profit or loss’ and OCI, would like to see the IASB paying more attention to the effect of translation of the terminology. For example, terms such as profit or loss and OCI are difficult to link linguistically to, and be combined in ‘total comprehensive income’.

Question 20

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

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

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

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Comments on Question 20

76. AOSSG members that support recycling believe the IASB should develop a clear principle as to when and why OCI should be recycled.
77. Many AOSSG members believe that ‘OCI’ should be recycled in all instances, and that the Conceptual Framework should require recycling. Many believe that requiring recycling in all instances would be important to ensure the ‘all-inclusive’ nature of profit or loss. This is primarily because:
- (1) Many financial statement users have stated that ‘profit or loss’ is a very (or perhaps, the most) important performance indicator for the assessment of future net cash inflows into an entity, but its usefulness would be significantly decreased if the integrity of profit or loss information is not supported by the consistency between the total amount of profit or loss and the total amount of cash flows over the long term.
 - (2) The ‘all-inclusive’ nature of profit or loss is important in light of providing information to help financial statement users assess how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources (in other words, for management to fulfil its ‘accountability’.)
 - (3) OCI can be viewed solely as a communication medium that updates the users with unrealised changes in net assets that are expected to be realised as a consequence of management actions. Accordingly, recycling can be viewed as a depiction of the effect of management actions on the entity’s performance.
78. However, some other members strongly disagree with 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 recycled in profit or loss in a later period because:
- (1) subsequent recycling of items into profit or loss does not faithfully represent income and expense (as defined), because changes in assets or liabilities do not occur when recycling occurs.
 - (2) the DP does not establish coherent principles for determining when it is more relevant to present an item in OCI rather than profit or loss, and when it would provide more relevant information to recycle a previously-recognised item of OCI to profit or loss.
79. Some believe that recycling of OCI should be determined according to whether or not to require the format of one-statement or two-statements for the statement of comprehensive income.

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.

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Comments on Question 21

80. AOSSG members believe that the IASB should develop a clear principle as to whether OCI should be recycled. However, most members disagree with using either of the approaches explained in the DP.
81. Although the reasons for the conclusion vary, AOSSG members do not believe that 2B would adequately address existing concerns about OCI, including the perception that OCI has become a ‘dumping ground’ for anything controversial. This is because Approach 2B merely justifies how OCI is accounted for under the existing IFRSs, and does not provide sufficient rationale as to when and why recycling is necessary. Accordingly, under that approach, ‘profit or loss’ does not necessarily reflect a clearly describable measure, and any effects arising from recycling similarly would not reflect an understandable measure.
82. In addition, although many AOSSG members believe that recycling is necessary and the principles stated in Approach 2A are helpful, especially considered together with the concept of ‘business model’, these members believe that Approach 2A is inappropriate in its scoping of OCI. This is because these members find many other instances that warrant the use of OCI, and can be identified when following the approach explained in paragraphs 71 and 72 of this submission. For example, items where OCI is used in the existing IFRS 9 *Financial Instruments* are considered to be items requiring recycling, following the notion of the ‘linkage factor’.
83. However, some other members believe that recycling is inappropriate for the reasons stated in paragraph 78 of this submission.

Section 9 Other issues

Question 22

Chapters 1 and 3 of the existing Conceptual Framework

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

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

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

Comments on Question 22

Stewardship

84. AOSSG members’ views are mixed regarding the concept of ‘stewardship (or accountability)’.
85. Some members believe that changes should be made to Chapter 1 of the Conceptual Framework because:

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- (1) stewardship is a very important concept for financial reporting and, accordingly, it should be clearly stated in the Conceptual Framework in light of the global financial crisis.
 - (2) though it is not the most important objective of financial reporting, stewardship is considered to be as important as the objective of providing useful information for users to assess future net cash inflows into an entity.
86. Others believe that it is unnecessary to reopen Chapter 1 of the Conceptual Framework, because:
- (1) The concept of ‘stewardship’ is already stated in the existing Conceptual Framework (implicitly in Chapter 1 and explicitly in the Basis for Conclusions thereon), and giving priority to specific shareholders may not meet the objective of general purpose financial reporting.
 - (2) Management should be accountable for all assets and liabilities (not just the assets and liabilities held for use). Similarly, management should be accountable for changes in the value of assets and liabilities, not just for transactions. Therefore, information about management’s ‘stewardship’ would be similar to (or the same as) information useful for assessing the prospects of future net cash inflows to an entity.
 - (3) ‘Stewardship’ and ‘accountability’ are considered as subordinated notions compared to the assessment of the prospects of future net cash inflows into an entity.
 - (4) It is unclear how giving greater prominence to the concept of ‘stewardship’ would change the economic phenomena identified by the Conceptual Framework for reporting information in respect of those economic phenomena to users of financial reports to meet their common information needs.
87. Some AOSSG members think that ‘stewardship’ is often used to mean the effective and efficient use of economic resource of an entity, and that the term ‘accountability’ would better serve the purpose of financial reporting.

Reliability

88. AOSSG members’ views are mixed regarding the concept of ‘reliability’.
89. Some AOSSG members are of the view that it is important to reinstate the concept of ‘reliability’ in the Conceptual Framework, both as a qualitative characteristic and as part of the recognition criteria. In addition, some of these members consider that ‘verifiability’ should be referred as one of the essential qualitative characteristics for financial statements (although it would not be essential for financial information in financial reports as a whole)¹.
90. Other members consider that the term and discussions in the Conceptual Framework on ‘faithful representation’ (in place of reliability) are sufficiently broad and clear, and accordingly, it is unnecessary to make changes. These members are of the view that nothing has been lost as a result of the 2010 amendments to the *Framework*. Nevertheless, some of these members consider that, if helpful to the understanding of a wider audience, the IASB could consider clarifying in the Basis for Conclusions the relationship between the concepts of ‘relevance’ and ‘faithful representation’.

¹ Paragraph BC3.35 of the Basis for Conclusions on the 2010 Conceptual Framework indicates verifiability was implicitly part of the concept of reliability in the superseded Framework.

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Prudence

91. Some members believe that the concept of ‘prudence’ should not be reinstated because it would contradict the concept of ‘neutrality’ and has no commonly understood meaning.
92. However, many AOSSG members believe it would be helpful to emphasise the importance of the ‘exercise of caution’. These members are of the view that the concept of ‘prudence’ is actually used in the standard-setting process, and drawing a clear line between ‘a bias towards conservatism’ and ‘the exercise of caution when making estimates and judgments under conditions of uncertainty’ in the Conceptual Framework would contribute to better financial reporting.

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?

Comments on Question 23

93. AOSSG members agree that the concept of the ‘business model’ is very important when the IASB develops or revises particular Standards. As stated in paragraph 6.75 of the DP, measures based on how the value of the asset is likely to be realised can be indicated by current activities (including the business model). Yet there is a mixed view as to whether the concept *can* be practically defined in the Conceptual Framework. The IASB could consider: (i) describing the concept of the business model as ‘how an entity conducts its business activities’, (ii) explaining how such a notion would enhance the achievement of the qualitative characteristics of useful financial information; and (iii) incorporating the notion in relevant chapters of the Conceptual Framework, most notably, the Measurement chapter (refer our comments in paragraph 43 above).
94. Some AOSSG members think the role of the business model concept should, at least in part, be determined or heavily influenced by other concepts – for example, by an identified ideal concept of wealth, in relation to measurement. Arguably, an entity’s operating capability, which represents the entity’s ability to carry out its activities at the scale determined by its then-existing resources, is the ideal concept of wealth that should be adopted in financial statements, on the basis that it provides the most useful information for helping users to predict an entity’s future cash flows. These members believe that applying that concept of wealth would provide insights into the consequences of the entity’s business model (for example, management’s decision to acquire specialised resources to provide bespoke goods or services would be reflected in the measurement of those specialised resources at current

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market buying prices, rather than, for example, at current exit prices – this is significant because current exit prices might not reflect the value of those resources to the reporting entity in particular for generating future cash flows). However, an ideal concept of wealth – rather than management’s intentions or practices – would determine whether assets and liabilities are measured at current values. For example, the measurement basis for receivables would not depend on whether those receivables are managed for collection of contractual cash flows.

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?

Comments on Question 24

95. AOSSG members believe that the ‘unit of account’ is such an important concept that it should be explained in more detail in the Conceptual Framework, because it has implications across various aspects of financial reporting (including recognition, derecognition, measurement, presentation and disclosures).
96. When considering the unit of account, AOSSG members suggest that the first action the IASB should undertake is to inventory the existing standards. In addition, in establishing the broad principles on the unit of account, the IASB may want to consider the factors including: (i) the economic characteristics of an asset or a liability, having regard to, in the case of assets, the various rights comprising the economic resource, as described in paragraph 3.8 of the DP; (ii) the business model under which such an asset or a liability is held; (iii) the most relevant measurement basis for the asset or liability; and (iv) the interaction with the notion of ‘control’ and ‘risks and rewards’.

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?

Comments on Question 25

97. AOSSG members do not find other situations in which the going concern assumption is strongly relevant. However, some AOSSG members find that classification of assets and liabilities as current and non-current is one result of applying this assumption and hence affects an entity’s financial statements and how users assess the entity’s short term liquidity. In addition, some AOSSG members are of the view that the reference to the going concern assumption is inappropriate when identifying liabilities (refer paragraph 18 of this submission).

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98. Furthermore, some AOSSG members consider that it is unclear from the discussion in the DP as to whether the IASB intends to provide guidance in the revised IASB Conceptual Framework on the development of IFRSs for situations where the going concern assumption is inappropriate. These members are of the view that the existing Conceptual Framework is also unclear on this matter. These members recommend that the Conceptual Framework should provide more clarity on this matter and establish broad principles to guide the development of IFRSs for situations where the going concern assumption is inappropriate, if the Conceptual Framework is intended to cover such situations.

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.

Comments on Question 26

99. Many AOSSG members generally agree with the preliminary view in the DP that the discussion of capital maintenance concepts should remain largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

100. However, some members strongly disagree with the IASB's preliminary view because:

- (1) Concepts of capital maintenance are highly important and implicitly pervasive in standard-setting, and should be dealt with at a conceptual level, in conjunction with the identification of an ideal concept of capital (wealth).
- (2) The existing Conceptual Framework is descriptive and does not indicate which concept of capital maintenance is conceptually ideal.

101. In addition, some AOSSG members believe that the revaluation model embodied in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* reflects a particular (but implicit) capital maintenance concept, and it would be a valuable improvement if such revaluation gains or losses for such assets were accounted for as changes in equity (rather than in OCI) on the basis of an explicitly stated capital maintenance concept.