Agenda Paper 6.1

asian-oceanian standard-setters group

AOSSG Annual Conference of 2013

Issues Paper for Conceptual Framework Working Group

WG members: Japan (chair), Australia, China, Hong Kong, Iraq, Korea, Malaysia, Nepal, New Zealand, Pakistan, Singapore, Indonesia

27 November 2013

Accounting Standards Board of Japan

I Summary of Conceptual Framework WG activities

In response to the comments received for the *Agenda Consultation 2011*, the IASB restarted the project to review the Conceptual Framework for Financial Reporting (hereafter, the "Conceptual Framework") in 2012. The IASB initiated the project to review the Conceptual Framework in 2004. However, after issuing *Chapter 1: The Objectives of General Purpose Financial Reporting* and *Chapter 3: Qualitative Characteristics of Useful Financial Information* of the Conceptual Framework, it suspended the project due to conflicting schedules with other projects, including revenue recognition, financial instruments, leases, insurance contracts,.

Considering the critical importance of the project, the AOSSG decided to establish a Working Group (WG) for this project at its 2012 annual conference. Following the subsequent discussion, it was decided that twelve members of the AOSSG (as detailed on the cover page) would become the WG members, and that the Accounting Standards Board of Japan (ASBJ) would lead the WG.

As a result of the deliberations held in the first half of 2013, the IASB published the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*[1] (hereafter, "IASB's DP") in July 2013, with the comment period ending 14 January 2014. During the deliberations, the IASB also decided that it would actively consult with national standards setters and use the Accounting Standards Advisory Forum (ASAF) as a vehicle for consultation rather than establishing a dedicated resource group for this project. Following are the topics that were discussed (or will be discussed) in the ASAF meetings during 2013.

(April 2013 ASAF meeting)

- Measurement
- Performance and OCI
- Uncertainty components of elements
- Open session to raise issues

(September 2013 ASAF meeting)

- Disclosure (IASB's planned initiatives responding to comments from the disclosure forum including amendment to IAS 1)
- Disclosure (AASB's essay)
- EFRAG bulletin on "Prudence"

(December 2013 ASAF meeting)

- EFRAG bulletin on "Stewardship"
- EFRAG bulletin on "Reliability"

[1] The IASB's DP can be downloaded from the IASB website (http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Discussion-Paper-July-2013/Documents/Discussion-Paper-Conceptual-Framework-July-2013.pdf)

- ASBJ paper on “Profit or Loss / Measurement”
- AASB paper on “Liabilities”

Furthermore, in addition to numerous outreaching activities carried out in a number of jurisdictions, the IASB decided to hold the a public roundtable meeting of Asia-Oceania region in Tokyo on 5 November 2013 in which a number of the AOSSG members participated[2]. Topics discussed during the roundtable meeting include the following:

- Measurement
- Profit or loss and OCI
- Asset and liability definitions, recognition and derecognition
- General discussion: other areas

Against this background, the AOSSG WG has exchanged numerous e-mails, and held a number of meetings held both in person and through the use of teleconferences and/or video-conferences. The aims of these activities were primarily:

- To understand the issues of other members’ interests and views thereon;
- To be better informed of opportunities to participate in standards-setting activities (such as roundtable meeting in Tokyo);
- To provide inputs to the AOSSG representative at the ASAF meeting (currently, Clement Chan, the vice-chair of the AOSSG), so that he can properly convey the AOSSG members’ views;
- To share views on issues with each other so as to develop more informed and collective views on respective topics; and
- To formulate the AOSSG’s views to be sent in its comment letter to the IASB by the closing of the comment period.

The detailed actions that have been taken by or the planned actions of the AOSSG Conceptual Framework WG are summarised in Appendix-1 of this paper.

II Objectives for the session during the AOSSG Annual Conference

In line with the timetable in Appendix-1 of this paper, objectives of the session during the AOSSG annual conference are:

- To discuss views on key issues in the IASB’s DP; and
- To provide additional opportunities for members to comment on issues that will be discussed during the December ASAF meeting.

In preparation for the AOSSG annual conference, the ASBJ (chair of the WG) asked the WG members to provide their views, in writing, on respective questions of the DP having acknowledged that these views are subject to change before the comment period deadline.

[2] AOSSG WG members from Australia, China, Hong Kong, Japan, Korea, and Malaysia participated in the roundtable.

Comments were not received from all WG members because many found it difficult to provide (even) preliminary comments, especially for contentious issues, at this stage. Yet the ASBJ endeavoured to incorporate the views of the WG members into the paper, reflecting on views expressed during the WG's teleconferences and roundtable discussions in Tokyo. A summary of the comments received on respective questions are detailed in Appendix-2 of this paper.

This Issues Paper summarises the views received from these members, and sets out themes that the AOSSG members would like to discuss during the session at the AOSSG annual conference.

III Key issues to be discussed during the AOSSG annual conference

Following are issues planned to be discussed during the session in the AOSSG annual conference, although the WG may decide to skip some of them depending on the discussion.

(1) Measurement (Section 6 of the DP)

- Do you agree that there should be a stronger linkage between the discussion about measurement and profit or loss / OCI? If not, why not?
- Do you agree that relevant measurement bases should be determined based on the following? If not, why not?
  - How an asset will contribute to future cash flows.
  - How an entity will settle or fulfil a liability.
- Do you think that the issue of foreign currency translation should be discussed in the Conceptual Framework? If not, why not?

(2) Profit or loss and OCI (Section 8 of the DP)

- Do you think that "profit or loss" should be defined as an element of the financial statements in the Conceptual Framework? If not, why not?
- Do you think that OCI items should be recycled in all cases? If not, why not?

(3) Stewardship and reliability (Section 9 of the DP)

- Do you think that the IASB should do something about the concept of "stewardship" and "reliability"? If so, how?

(4) Split between liabilities and equity (Section 5 of the DP)

- Do you agree with the strict obligation approach proposed in the DP? If so, why?

(5) Elements and Recognition (Sections 2-4 of the DP)

- Do you agree with the recognition criteria proposed in the DP? If not, why not?
- Do you have any comments on the definitions of assets and liabilities (including aspects of AASB paper on Liabilities for the December ASAF meeting)?

(Appendix-1) Summary of Activities of the AOSSG WG during 2013

Timing	Actions Taken / Proposed Actions	Responsible party
19 July, 2013	**Publication of DP**	**IASB**
3 August	The ASBJ sent an e-mail to encourage the AOSSG WG members to consider and formulate their views on the DP's questions.	ASBJ
August	The ASBJ distributed relevant papers for the September ASAF meeting to WG members. ➢ EFRAG Bulletin and IASB Disclosure Feedback Statement (3 August) ➢ AASB paper on disclosure framework (as soon as available) ➢ Papers on amendment of IAS 1 and materiality (as soon as available)	ASBJ
31 August	To prepare for the September ASAF meeting, the AOSSG WG members were requested to send preliminary views on the following points to ASBJ by 31 August. ➢ Prudence (EFRAG Bulletin and part of section 9) ➢ Disclosure (AASB paper on disclosure framework, papers on amendment of IAS1 and materiality, and part of section 7 of the DP)	AOSSG WG members
Early September	AOSSG WG/WP conference call (#1) [For ASAF meeting] ➢ Prudence ➢ Disclosure Framework, Amendment of IAS 1, and Materiality 2.0 hours	ASBJ/ AOSSG WG members
22 September	AOSSG Interim meeting ➢ Planned actions of the AOSSG WG ➢ Preliminary views on key issues of the DP 0.5 hours	ASBJ/ AOSSG WG members
25-26 September	ASAF meeting ➢ Prudence (1.5 hours) ➢ Disclosure Framework, Amendment of IAS 1, and Materiality (3.5 hours)	HK (Clement)
30 September	To prepare for RT discussion on 5 November, the AOSSG WG members were requested to send preliminary views on the DP's questions to the ASBJ	AOSSG WG members

Timing	Actions Taken / Proposed Actions	Responsible party
	by 30 September. ➢ Measurement (section 6) ➢ Profit or loss (section 8) ➢ Definitions of assets and liabilities / Recognition ➢ EFRAG's bulletin on Stewardship and Reliability ➢ AASB's paper on Liabilities	
28October	To prepare for the AOSSG annual conference, the AOSSG WG members were requested to send *preliminary* views on *all* questions in the DP to ASBJ by 28 October.	AOSSG WG members
1 November	AOSSG WG/WP conference call (#2) [To exchange views on the major issues identified for the AOSSG comment letter and to prepare for the Roundtable discussion] ➢ Measurement ➢ Profit or Loss / OCI ➢ Definitions of assets and liabilities / Recognition 1.5 hours	ASBJ/AOSSG WG members
5 November	Conceptual Framework Public Roundtable (Tokyo) ➢ Measurement ➢ Profit or loss ➢ Definitions of assets and liabilities / Recognition 3 hours	RT Participants
12 November	To prepare for the AOSSG annual conference the ASBJ submitted the paper summarizing the issues and views of the AOSSG WG members.	ASBJ
21 November	To prepare for the December ASAF meeting, the AOSSG WG members will be requested to send preliminary views on the following to ASBJ by 21 November. ➢ TBD	AOSSG WG members
26 November	AOSSG Working Group meeting (Colombo) ➢ Section 1-9 of the DP *The objectives of the meeting are:* - *To exchange views on the DP and to formulate the AOSSG comment letter;* - *To confirm major issues that should be raised during the AOSSG annual conference; and* - *To provide inputs to Clement for the December*	ASBJ/ AOSSG WG members

Timing	Actions Taken / Proposed Actions	Responsible party
	ASAF meeting. ✧ EFRAG bulletin on *Stewardship* ✧ EFRAG bulletin on *Reliability* ✧ ASBJ paper on *Measurement / Profit or Loss* ✧ AASB paper on *Liabilities* 3.0 hours	
27 November	AOSSG Annual Conference (Colombo) ➢ Measurement (section 6 of the DP) ➢ Profit or loss and OCI (section 8 of the DP) ➢ Stewardship and reliability (section 9 of the DP) ➢ Split between liabilities and equity (Section 5 of the DP) ➢ Others (Sections 2-4 of the DP) *The objectives of the meeting are:* - *To exchange views on the DP to formulate the AOSSG comment letter;* - *To provide additional opportunities to provide inputs to Clement for the December ASAF meeting.* 2.0 hours	ASBJ/ AOSSG WG members
5-6 December	ASAF meeting ➢ Stewardship ➢ Reliability ➢ Profit or Loss and Measurement ➢ Liabilities 5.0 hours	HK (Clement)
18 December?	The ASBJ will circulate the draft comment letter to the AOSSG WG members inviting comments on the draft comment letter until 25 December.	ASBJ
25 December	**The AOSSG WG members will be requested to send comments on the draft comment letter by 25 December.**	**AOSSG WG members**
Late December	If considered necessary, the AOSSG WG will have a conference call (#3) [To formulate the AOSSG comment letter] ➢ Draft comment letter Estimated 2.0 hours	ASBJ/AOSSG WG members
27 December (TBD)	The ASBJ will circulate draft comments to all AOSSG members, so as to invite comments on the	ASBJ

Timing	Actions Taken / Proposed Actions	Responsible party
	draft comment letter until 6 January.	
6 January	**All AOSSG members are requested to send comments on the draft comment letter by 25 December.**	**All AOSSG members**
7 January -	Based on the comments received, the ASBJ will revise the draft letter.	ASBJ
14 January (*Comment period*)	Submission to the IASB	ASBJ

(Appendix-2) Summary of comments received from AOSSG WG members to questions in the DP

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 principles 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?

[AOSSG WG members' comments]

- The majority of the WG members generally supported the proposal of the DP.
- However, there was a view that the Conceptual Framework may also assist 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. Therefore, these two purposes should be of same importance as the purpose proposed.

Section 2 Elements definitions 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?

[AOSSG WG members' comments]

- The majority of the WG members generally supported the proposal of the DP.
- However, there is a question as to whether there should be either (i) a broader definition of a liability, or (ii) a mezzanine category between the sections of liabilities and equity from the perspective of the split between liabilities and equity.

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?

[AOSSG WG members' comments]

- Many of the WG members raised concerns with the IASB's proposal, including:
  - If the "probability" threshold were to be eliminated, virtually all litigation claims may be measured using expected value which is significantly misleading to financial statement users. Thus, the "probable" notion should be retained in the recognition criteria.
  - The "probability" notion is not necessarily appropriate as part of recognition criteria in some circumstances. This may be the case where the distribution of the probabilities of something occurring is not known to third parties. A written option (as a financial liability) is a good example because many would think that it should be recognised regardless of whether the possible cash outflows are probable or not. However, in other cases (including litigation), the probability threshold may still be an appropriate threshold because measurement of such liabilities on an expected value basis would not usually coincide with the value of the ultimate cash outflows in most cases.
  - Paragraph 2.35 (c) and paragraph 4.25 of the IASB's DP seem to contradict each other.

Question 4

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52.

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

[AOSSG WG members' comments]

- The majority of the WG members believed that terms such as "profit or loss" and "other comprehensive income" should be defined as elements of financial statements.
- Other comments received include the following:
  - There should be a hierarchy among each of financial statement. In particular, the statement of financial position and the statement of comprehensive income should have primacy over the statement of changes in equity and statement of cash flows.
  - Terms such as "cash receipts" and "cash payments" should not be defined as elements of financial statements. The proposed definitions would give rise to a misunderstanding that the IASB still wishes to adopt the "direct-method" for the statement of cash flows.
  - 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.
  - IASB may want to consider abolishing the use of the term "income," and instead use the term "revenue".

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?

[AOSSG WG members' comments]

- The majority of the WG members agreed with the proposal in the DP to retain the existing definition of a liability.
- However, the WG members noted the following:

- It is not clear if the notion of "economic compulsion" should be defined considering that such a term is not broadly used in the IFRSs. If it is necessary to use the term, it may be enough to explain the difference between the terms "economic compulsion" and "constructive obligation."

Question 6

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:

(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.

(b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.

(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

[AOSSG WG members' comments]

- The majority of the WG members preferred View-2.
- However, one member preferred an approach that is broader than View-3. Under the 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 event*.

Question 7

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

[AOSSG WG members' comments]

- The IASB may want to clarify what is meant by the term "economic benefit," because such it is understood differently among stakeholders.

Section 4 Recognition and derecognition

Question 8

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

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

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

[AOSSG WG members' comments]

- Many of the WG members disagreed with the IASB's proposal for several reasons, including:
  - 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 standards setting process due to their very subjective nature.
  - It would be helpful if the IASB provides more detailed guidance about whether, and if so, how an entity should consider the concepts of "relevance" and "faithful representation" separately in determining whether to recognise an asset or a liability.
  - As stated in Question 3, if the "probability" threshold were to be eliminated, virtually all litigation claims could be measured using expected value, which is significantly misleading to financial statement users. Thus, the "probable" notion should be retained in the recognition criteria.
  - As stated in Question 3, the "probability" notion is not necessarily appropriate as part of recognition criteria in some circumstances. This may be the case where the distribution of probabilities of something occurring is not known to third parties. A written option (as a financial liability) is a good example, because many would think that it should be recognised regardless of whether the possible cash outflows are probable or not. However, in other cases (including litigation), the probability threshold may still be an appropriate threshold because measurement of such liabilities on an expected value basis would not usually coincide with the value of the ultimate cash outflows in most cases.

Question 9

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

(a) enhanced disclosure;

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

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

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

[AOSSG WG members' comments]

- Many of the WG members agreed with the IASB's proposal.
- However, some were of the view that the principle relating to derecogniton seems to rely too much on judgment at an individual standard level, and that such a principle should be more clearly articulated in the Conceptual Framework. In doing so, the concept of the "unit of account" should be further explored in parallel.

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?

[AOSSG WG members' comments]

- Many of the WG members disagreed with the IASB's proposal.
- Some members disagreed for the following reasons:
  - The proposed "strict obligation" approach is to require remeasurement of part of claims in the equity section, but it is not clear what the residual amounts represent (after deducting the current value of the secondary claims).
  - In particular, remeasuring equity warrants may give rise to an outcome that does not reflect economic reality, because the residual amount of equity 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 been increased.)
- Other reasons for the disagreement included the following:
  - The objectives of financial information do not necessitate showing the effect of dilution in the equity section.
  - There are significant practical difficulties in how to remeasure some parts of equity.
  - The benefits from remeasuring some parts of equity do not outweigh the cost of doing so.
- One of the alternative suggestions included the following:
  - Instead of following the "strict obligation approach," a split between liabilities and equity should be considered in light of:
    - (i) Determining whether income or expense should be recognised for a particular transaction; and
    - (ii) Providing information that helps users to better assess the solvency of an entity.
  - To achieve the objectives, the following two options should be considered:
    - (i) To establish a mezzanine category between the liabilities and equity section (this is to help align the boundaries of equity with the transactions for which incomes or expenses should be recognised.)
    - (ii) To define liabilities as a residual category (after deducting equity) and separate liabilities into "liabilities with an obligation to transfer an economic resource" and "other liabilities" (this is to help an entity to present its solvency by distinguishing claims that an entity cannot forego from the rest of its claims.)

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 the resources of the entity, claims against the entity and changes in resources and claims, and about 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; and

(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.

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?

[AOSSG WG members' comments]

- Many of the WG members generally agreed with the IASB's proposal.
- However, the following comments were noted.
  - The measurement objective could note different measurement objectives for the statement of financial position and the statement of comprehensive income.
  - Further consideration should be given to whether the two objectives for measurement (i.e., decision usefulness for uses and stewardship from management) should be given an equal priority. If that is the case, the IASB may want to reconsider the hierarchy of "stewardship" in the objective section of the Conceptual Framework.
  - Measurement bases should be determined, taking into account the followings
    - (i) Adding differing measures of economic benefits would not result in meaningful totals; and
    - (ii) Whichever measurement attribute is selected implies a particular concept of wealth (this could be unconsumed invested money capital, current cash equivalents commanded, or operating capacity.)

Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB's preliminary views are that:

(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.

(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.

(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.

(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

[AOSSG WG members' comments]

- Many of the WG members generally appreciated the IASB's proposal.
- However, the following comments were noted.
  - There should be a stronger linkage between the discussion about measurement and profit or loss / OCI.
  - 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 comprehensive income, although in most cases they would be the same.
  - The IASB should acknowledge that the following situations exist (i.e., assets with hybrid purposes), where the use of OCI may be necessary:
    - (i) An entity may hold assets for collection or sell them; and
    - (ii) An entity may charge for the use of assets or sell them.
  - Although the categories of (a) – (c) are understandable, it is not certain if category (d) is appropriate. Specifically, the reasons stated relating to category (d) are not sufficiently robust, and the category should be reconsidered.

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:

(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
(b) a cost-based measurement will normally provide the most relevant information about:
  (i) liabilities that will be settled according to their terms; and
  (ii) contractual obligations for services (performance obligations).
(c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

[AOSSG WG members' comments]

- Many of the WG members generally appreciated the IASB's proposal.
- However, the following comments were noted.
  - For liabilities which have stated terms but have highly uncertain settlement amounts that have not yet been determined, the IASB should acknowledge that there are situations where different measurement bases should be used for the statement of financial position and the statement of comprehensive income (in particular, 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?

[AOSSG WG members' comments]

- Many of the WG members generally agreed with the IASB's proposal.
- However, some questioned if the discussion would hold true in all cases, although it was noted that it would likely apply to most cases of debt financial instruments. Some pointed out a concrete example: fair value measurement of investments in unlisted shares would not necessarily be appropriate due to the relevance of fair value as a measurement basis or the challenges of faithful representation.

Question 15

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

[AOSSG WG members' comments]

- One member strongly believed that the Conceptual Framework should discuss the issue of foreign currency translation for the following reasons:
  - Some countries, which are exposed to a great deal of the foreign currency risk, share the idea that the 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 attribute of the translation is not clearly identified in IFRSs.
  - Therefore, it would be more helpful for substantial discussion regarding foreign currency accounting if the Conceptual Framework clearly describes the nature of the foreign currency translation accounting (at least whether it is fair value remeasurement).
  - If the foreign currency translation accounting is not part of the measurement issue, the Framework may identify the attribute of foreign currency translation as a "simple denomination."

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;

(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.

[AOSSG WG members' comments]

- Many of the WG members generally agreed with the IASB's proposal.
- However, the following comments were noted.
  - 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 (e.g., hedging relationship) more clearly as well as management intentions.
  - There should be a hierarchy among the financial statement. In particular, the statement of financial position and the statement of comprehensive income should have primacy over the statement of changes in equity and statement of cash flows.
  - The IASB may want to acknowledge that the amount of disclosure should differ, depending on the extent of outcome uncertainties.
  - Cost-benefit consideration should be included in the disclosure chapter, if the IASB decides to make the cost-benefit consideration explicit in other chapters.

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?

[AOSSG WG members' comments]

- Many of the WG members generally agreed with the IASB's proposal.
- Members noted that it would be helpful if the IASB could develop educational material of some kind in cooperation with the IAASB and the IOSCO, because the concept of "materiality" is commonly used in preparing and auditing financial statements.

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?

[AOSSG WG members' comments]

- Many of the WG members generally appreciated the proposed communication principle.
- However, some noted that part of the proposed communication principle would not support standards setting activities but rather support entities in preparing financial statements. Therefore, there was a view that it would be useful if some of the communication principles were included in IAS 1 *Presentation of Financial Statements* (such as (b) and (c) of the proposed communication principles) or published as a practical guide for financial statement preparers (such as (a) of the proposed communication principles).

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 amending Standards?

[AOSSG WG members' comments]

- Virtually all members believed that there should be a clear principle with robust reasoning of the presentation of "profit or loss" and the use of "OCI."
- Many of the WG members believed that "profit or loss" should be presented in the statement of comprehensive income, although they believed that "profit or loss" should also be defined as one of the elements of financial statements.
- However, some other members believed it unnecessary to present "profit or loss" in the statement of 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?

[AOSSG WG members' comments]

- Virtually all members believed that there should be a clear principle about whether OCI should be recycled.
- Many of the WG members believed that "profit or loss" should be recycled in all instances, and thus the Conceptual Framework should require recycling.
- However, some other members believed that it is not necessary or appropriate to recycle OCIs.

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.

[AOSSG WG members' comments]

- Many members appreciated the efforts by the IASB to classify OCIs into several categories.
- However, virtually all members believed that there should be a clear principle about whether OCI should be recycled.
- Most of the WG members did not support either of the approaches in the DP, while views differed as to whether recycling should be required or permitted.
- Some noted that whether to recycle should be determined in line with whether to require the format of one-statement or two-statements for the statement of comprehensive income.

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.

[AOSSG WG members' comments]

Stewardship

- This topic will be discussed during the WG meeting on 26 November 2013.
- However, some noted the following comments:
  - "Stewardship" is an important term that should be clearly stated in the Conceptual Framework.
  - "Stewardship" should not have primacy over the objective of providing useful information for users to assess future net cash inflows into an entity. However, some information that is required to be disclosed currently may not be directly drawn from either of the objectives (e.g., a disclosure relating to related party transactions), although most information would be considered necessary from both objectives. Therefore, the IASB may want to amend the section on the objectives of financial reporting to give an equal priority to "stewardship."

Reliability

- This topic will be discussed during the WG meeting on 26 November 2013.
- However, some noted the following comments:
  - The concept of "reliability" is important and should be reinstated in the Conceptual Framework.
  - It is not clear if the concept of "reliability" should be reinstated because the usefulness of financial information should be considered in total. However, it may be useful to clarify the relationship between the concepts of "relevance" and "faithful representation" in the Conceptual Framework or in the educational material.

Prudence

- The WG members had different views with regard to the concept of prudence.
- Some believed that there is no need to reinstate the concept of "prudence" into the Conceptual Framework, considering the relationship with the concept of "neutrality" that is an aspect of "faithful representation." Some noted that the concept of "prudence" is likely to be tilted towards only the preservation of overstatement of profit or loss. It was also noted that the concept of "prudence" may be useful for prudential regulators, but not for general purpose financial reporting.
- Others were of the view that it would be useful if the concept of "prudence" were to be reinstated in the Conceptual Framework, having recognised that such a concept is often used in the standard setting process. It was suggested that there is value in providing clarity about the level of prudence that should be considered in the context of neutrality (as opposed to excessive prudence that should not be considered.)

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?

[AOSSG WG members' comments]

- Most of the WG members generally agreed with the proposal of the DP.
- Some noted that the business model is a very important concept which is expected to play an important role in standards setting activities, but it may be too difficult to define the concept in the Conceptual Framework.

Question 24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

[AOSSG WG members' comments]

- Most of the WG members generally understood the challenges of setting out clear principles for the concept of unit of account.
- However, some noted that the unit of account is a very important concept in standards setting activities, and recommended the IASB try to address the issue in the Conceptual Framework project.

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?

[AOSSG WG members' comments]

- The majority of the WG members generally agreed with the proposal of the DP.

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.

[AOSSG WG members' comments]

- The majority of the WG members generally agreed with the proposal of the DP.