Australian Government
Australian Accounting Standards Board

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Note: This document is a work in progress and has been prepared by staff of the AASB to facilitate the deliberations of the AASB on the IASB's Conceptual Framework Exposure Drafts for the purpose of forming tentative Board views.

[x] October 2015

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans

IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and
IASB ED/2015/4 *Updating References to the Conceptual Framework*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on IASB/ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB/ED/2015/4 *Updating References to the Conceptual Framework* ('the EDs'). In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB remains supportive of the IASB undertaking its Conceptual Framework project and appreciates the IASB's efforts in issuing the EDs. The AASB is cognisant that there is wide diversity in views on the form and content of a conceptual framework. As part of its redeliberations, the AASB would encourage the IASB to consider the purpose and role of a conceptual framework in its decision-making on this project. The AASB considers that the purpose and role of a conceptual framework is not to describe current practice, conventions or methods, or to provide practical expedients or to manage political differences. Its role is to provide a conceptual basis for standard-setting. Practical departures and political differences should be addressed at a standards-level.

For various reasons commented on in Appendix A to this submission, the AASB thinks that the proposed framework document is not yet sufficiently developed to present as a **complete** conceptual framework. The AASB concurs with Mr Cooper and Mr Finnegan that the proposed Chapter 7 is inadequate and represents a missed opportunity to identify a conceptual basis for the use of other comprehensive income (OCI). The Board also concurs with Ms Lloyd and Mr Finnegan that the definition of a liability needs to address both the determination of whether a claim exists and the classification of the claim, and that the Conceptual Framework should ideally include discussion in this regard. Further, the AASB is generally supportive of the views of Mr Finnegan set out in paragraphs AV15-AV33.

Comment [EL1]:
Question 1 to Board members
Do Board members agree with the Alternative Views of Stephen Cooper, Sue Lloyd and Patrick Finnegan presented on pages 121-129 of IASB ED/2015/3?

In redeliberating the project, the AASB encourages the IASB not to be bound by its targeted project completion dates. The IASB should take the time needed to evaluate and enhance its proposals so that the final pronouncement reflects a sufficient improvement over the current conceptual framework to warrant its development. The AASB would be pleased to participate in any further targeted outreach, discussions or workshops that the IASB may undertake in this regard, or to contribute to the development of various sections.

If the IASB proceeds to issue a revised Conceptual Framework in the short-term with unresolved issues in various sections, including those relating to the liability definition, measurement and on the income statement presentation, the AASB would support the IASB providing only limited guidance in those sections and committing to undertake further work, as a priority, in separate projects to further develop those sections. In that regard, the AASB thinks it is important that the content of the revised Conceptual Framework avoids setting out principles that inadvertently limit the further development and evolution of financial reporting. The AASB strongly encourages the IASB to note in its Basis for Conclusions to a revised Conceptual Framework any sections of the document that are still under development, and to acknowledge that further work to the conceptual framework is necessary. The AASB would also strongly encourage the IASB to amend, where appropriate, its Conceptual Framework following the outcomes of its projects on the Disclosure Initiative and Financial Instruments with Characteristics of Equity.

The AASB's responses to the specific matters for comment in IASB ED/2015/3 and IASB ED/2015/4 are included in the Appendices to this letter.

If you have queries regarding any matters in this submission, please contact me, Angus Thomson (athomson@aasb.gov.au), or Evelyn Ling (evelynl@aasb.gov.au).

Yours sincerely

Kris Peach
Chair and CEO

APPENDIX A: AASB comments on IASB ED/2015/3 *Conceptual Framework for Financial Reporting*

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

Prominence to management stewardship

The AASB **agrees** with the proposed amendments to Chapter 1 to better clarify the role of management stewardship in providing useful financial information for decision-making. In addition, the AASB recommends amending paragraph 1.2 to refer also to "evaluating decisions" to make more apparent that stewardship contributes to the decision-making objective.

The AASB **supports** the approach in the ED of identifying a single objective of financial reporting. The AASB considers that identifying a single objective of general purpose financial reporting helps with identifying the financial information needs of users that general purpose financial reports should strive to meet and that Standards should be developed to require. The AASB **agrees** with the IASB's rationale in paragraph BC1.10 against identifying stewardship as an additional objective of financial reporting.

The AASB notes that some of its constituents **object** to the reintroduction of the term 'stewardship', as they consider that stewardship has not been adequately described in the ED. Accordingly, the AASB considers that it may be useful to include further guidance on the role of stewardship in informing users about how efficiently and effectively management has used the entity's resources and the implications this has for an entity's ability to generate future cash flows. The AASB also considers there is a link that could usefully be made in the Conceptual Framework between demonstrating stewardship in financial reports and neutrality, given that there would need to be an absence of management bias from information that genuinely demonstrates stewardship.

The AASB is also aware that, in some jurisdictions, there is a view that the Conceptual Framework ED still does not give sufficient prominence to stewardship. The AASB

Comment [EL2]:
Question 2 to Board members:
Do Board members agree with the staff recommendations, as reflected in the proposed draft responses, with respect to supporting or disagreeing with the IASB Specific Matters for Comment not queried of the Board as part of Questions 3-10 below?

Comment [EL3]:
Note 1 to Board members:
The draft response is largely consistent with the AASB's previous view communicated in its submissions on the Conceptual Framework Discussion Paper. For more information, refer paragraphs S234 – S253 of the supplementary paper to the AASB's submission.

Question 3 to Board members:
Do Board members agree with the staff recommendation to support the IASB proposal to give more prominence to stewardship?

considers this to be, in part, a consequence of the decision of the IASB to limit the focus of the objective of general purpose financial reporting to a primary set of users comprising only investors, lenders and creditors and narrowly describing their decision making interests with respect to financial return. The AASB thinks that remaining concerns about the role of stewardship could best be addressed by acknowledging other decision-making interests of primary users in paragraph 1.2. This could include expanding on the statement in paragraph 1.22 that information is also useful for decisions by users who evaluate management and, for example, have the right to vote on, or otherwise influence, management's actions by voting on executive remuneration or reappointing directors.

Reference to prudence

The AASB **disagrees** with the reintroduction of the term 'prudence'. The AASB does not regard prudence as having the same meaning as neutrality or being consistent with neutrality, but notes that it has been incorporated in such a manner in the ED.

The AASB is concerned that prudence will be interpreted and applied differently not only in different jurisdictions, but to different degrees by different user groups. The AASB has received feedback through its outreach activity on the EDs that most of its constituents are concerned about the historical association, within the accounting profession, of the term 'prudence' with conservatism. It might be better for the IASB to communicate 'cautious prudence' through the use of a different word, for example, 'balance', and to include more guidance about the notions of caution, carefulness, and the absence of management bias, rather than reintroducing the term prudence into the Conceptual Framework. Given the risk of misinterpretation and misapplication, the AASB supports retaining the position in the existing Conceptual Framework of not referring to prudence.

If prudence is to play a part in standard setting, the AASB considers that this should be at the standards level, not in the Conceptual Framework. At a standards level there is less likelihood for there to be a misunderstanding (or different understandings) of the impact of prudence because it is being used in a particular context. In the AASB's outreach, constituents observed that the absence of prudence has not prevented the IASB from developing standards that could be regarded as embedding an element of prudence – with the prime example being the expected loss model (in particular, the 12-month loss allowance when there is no significant increase in credit risk since initial recognition) in the final version of IFRS 9 *Financial Instruments*.

If the IASB feels compelled to incorporate prudence in the Conceptual Framework, the AASB **could accept** the current proposal to reintroduce 'prudence', provided the manner in which it is to apply is clearly articulated in the Conceptual Framework, and is not extended to include asymmetrical prudence. In this context, the AASB thinks that it would be important for the Conceptual Framework to articulate that, as prudence supports neutrality, it therefore applies to the measurement of financial information, rather than in the determination of an appropriate accounting policy.

Faithful representation represents substance over legal form

The AASB **agrees** with the proposals to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form. Substance over form remains a key basis on which useful information is included in general purpose financial reports.

Comment [EL4]:
Note 2 to Board members:
The AASB strongly disagreed with reintroducing prudence in its submissions on the Conceptual Framework Discussion Paper. For more information, refer paragraphs S265 – S270 of the supplementary paper to the AASB's submission.

Relevance and measurement uncertainty

The AASB **supports** including more guidance on measurement uncertainty within the Conceptual Framework, and agrees that measurement uncertainty is one factor that might make financial information less relevant. However, the AASB considers that a discussion on measurement uncertainty would appear to be better categorised within the fundamental qualitative characteristic of faithful representation rather than within relevance, or is at least given greater acknowledgment within faithful representation. The AASB considers that an item may not be able to be recognised because it cannot be faithfully represented when, for example, the measurement uncertainty is extreme. If the IASB proceeds with the view that measurement uncertainty is part of relevance, it needs to give consideration to explaining, in its Basis for Conclusions, a rationale for not including measurement uncertainty as part of faithful representation.

The AASB notes that as part of the 'trade off', measurement uncertainty may render financial information not relevant for recognition, but still relevant for disclosure; however, this is a standards-level decision. The AASB also considers it important that the discussion on relevance and measurement uncertainty does not imply that high measurement uncertainty means that information is not relevant, and accordingly, need not be recognised or measured. Both of these considerations need to be better clarified in the Conceptual Framework.

Fundamental qualitative characteristics

The AASB **agrees** with the proposal to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information.

The AASB **supports** not reintroducing 'reliability' as a fundamental qualitative characteristic. The AASB has not received any feedback during its outreach that would suggest reliability should be retained. However, the AASB notes that various IFRSs currently refer to 'reliably measured' or 'reliable measurement', and thinks that the IASB should consider reviewing such references as a matter of high priority to ensure the terminology is updated consistent with the transitional period of the amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* proposed in IASB ED/2015/4.

<u>Other comments</u>

The text 'at a minimum' in paragraph 2.16 should be deleted to avoid the impression that these disclosures must all be present for an item to be considered faithfully representative.

Question 2 – Description and boundary of a reporting entity
Do you agree with: (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25? Why or why not?

Comment [EL5]:
Question 4 to Board members:
Do Board members agree with the staff recommendation to support the IASB proposal to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant?

Description of a reporting entity

The AASB **agrees** that the Conceptual Framework should continue to broadly describe, rather than define, a reporting entity, as the responsibility for determining which entities should apply accounting standards is a matter for individual jurisdictions. The AASB also **agrees** that what constitutes a reporting entity should not be limited to legal entities. Neither should the constituent parts of a reporting entity be limited to legal entities.

The AASB notes that the IASB could potentially make greater use of the reporting entity concept in identifying entities that should prepare general purpose financial statements, as a basis for helping to guide jurisdictional decisions on which entities should report. In Australia, the AASB currently uses the reporting entity concept to help identify those entities that must apply AASB accounting standards. Entities that are reporting entities are required to prepare general purpose financial statements in accordance with AASB standards (equivalent to IFRSs). To date the reporting entity decision in Australia has been left largely to the entities themselves, which has given rise to mixed results. However, as a result of feedback received that the reporting entity concept is difficult to apply in practice, the AASB has concluded that it should change the way it uses the concept by instead promoting it for use by Australian policymakers when they determine the entities that should prepare general purpose financial statements.

Description of the boundary of a reporting entity

The proposals discuss the boundaries of a reporting entity using the notions of 'direct control' and 'indirect control'. The AASB has received feedback from constituents that the Chapter is difficult to follow, because 'control' as incorporated herein and applied to the preparation of separate or consolidated financial statements is not immediately consistent with control as understood in IFRS 10 *Consolidated Financial Statements*.

The AASB **agrees** with the proposals to determine the boundary of a reporting entity based on control. However, the AASB is of the view that Conceptual Framework should also clarify:

(a) the perspective from which consolidated financial statements are prepared, as the proprietary perspective and the economic entity perspective can lead to different accounting policies in a range of circumstances including step acquisition accounting, and the classification of liabilities and equity. The AASB thinks this is a fundamental aspect of accounting thought and it would be useful for the Conceptual Framework to clarify the perspective that applies to promote consistency in future standard-setting;

(b) the interaction between the boundary of the reporting entity and other aspects of the Conceptual Framework, including addressing whether (and if not, why not) the distinction between direct and indirect control is consistent with the definitions of an asset; and

(c) whether proportionate consolidation has a place in financial reporting on the basis that it might faithfully represent what a group controls.

The AASB also considers that care should be taken in the Chapter to ensure control relationships other than parent-subsidiary relationships are not excluded; for example, stapled security arrangements.

Further, the AASB is conscious that there are different views held as to whether equity accounting reflects a measurement method or is a basis of consolidation. Equity accounting is regarded by some as being a one-line consolidation, while others consider it a form of valuation. This has previously led to mixed interpretations as to whether unconsolidated financial statements can include equity accounted amounts, and whether an equity accounted interest should be viewed as a single asset or as an aggregate of assets and liabilities. The AASB notes that the proposals do not contemplate that consolidation (or a one-line consolidation) would occur in the absence of control, which implies that equity accounting can only be a measurement method. The proposals also do not discuss whether the reporting entity boundaries could include instances of joint control. As the equity method of accounting is also applied to interests in joint ventures, there continues to remain a lack of clarity as to whether equity accounting is a measurement method or basis for consolidation. The AASB recommends that the IASB clarify its thinking on control relationships in its Basis for Conclusions to the Conceptual Framework, as this thinking may have implications for the Board's decisions on its future project on IAS 28 *Investments in Associates and Joint Ventures*.

Other comments

Paragraph 3.25 makes the comment that it is necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements. The AASB considers that such a statement is better made at a standards-level, and should not be included as part of the Conceptual Framework.

Question 3 – Definitions of elements
Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity): (a) an asset, and the related definition of an economic resource; (b) a liability; (c) equity; (d) income; and (e) expenses? Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

Definition of an asset

The AASB **agrees** with the proposed definition of an asset and proposed definition of an economic resource.

However, the AASB thinks the Conceptual Framework needs to be consistent in identifying the asset as a bundle of related rights rather than as a physical form, as this may have unit of account implications. Also, the AASB considers that the Conceptual Framework should provide guidance on whether, and when, the composition of the bundle of rights has changed (for example, after a securitisation or when a component of a physical asset is replaced), including some principles for determining whether an asset has been exchanged in full, or in part, for a different collective bundle of rights. The AASB thinks that this is

Comment [EL6]:
Note 3 to Board members:
Staff are still considering the asset definition and associated discussion. However, at this time staff recommend supporting the IASB proposed definitions of an asset and an economic resource.

Question 5 to Board members:
Do Board members agree with the staff recommendation to support the IASB proposed definition of an asset and an economic resource?

Note 4 to Board members:
The proposed definition of an asset focuses on economic benefits, which are described in terms of contribution to future cash inflows. The IASB has noted in paragraph BC4.28 that it has decided not to refer to benefits other than economic benefits in the definition. Accordingly, Aus guidance may be necessary to ensure that the definition of an asset is appropriately applicable to Australian not-for-profit entities, consistent with paragraphs Aus49.1, Aus54.1 and Aus54.2 in the current *Framework for the Preparation and Presentation of Financial Statements* referencing 'service potential'.

important, as it may assist in evaluating whether profit should be recognised on a transaction.

In addition, the AASB thinks it necessary for the Conceptual Framework to observe that the measurement of the collective bundle of rights is not necessarily the sum of the measurement of each individual right held that collectively forms the 'asset'. However, the AASB thinks it is a standards-level assessment as to whether the 'asset' should be recognised (and measured) as a single collective bundle of rights, or that it could be potentially unbundled for recognition (and measurement).

Other comments

It would be useful for the discussion in paragraph 4.23 to include principles for determining when an entity is acting as an agent.

Definition of a liability

The AASB's comments to Question 3(b) are included as part of the response to Question 4 below.

Definition of equity

The AASB **agrees** with the proposal to retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

Definitions of income and expense

The AASB **agrees** with the proposals to retain the existing definitions of income and expense.

Question 4 – Present obligation
Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

Many participants from the AASB outreach activity on the EDs considered that the proposed amendments are likely to create more issues (for example, issues currently addressed in IAS 32 *Financial Instruments: Presentation* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) than they solve. They noted that the consequences, intended or otherwise, of the proposals beyond their application to certain levies need to be considered by the IASB before it finalises the Conceptual Framework. For example, the proposed definition should be tested using royalties, levies, dividends, examples of constructive and contingent obligations, unequally performed contracts, unavoidable future losses, and against contracts where the entity may have the practical ability to avoid part of an obligation.

The ED proposes that two criteria must be met before a present obligation is said to exist: 'no practical ability to avoid' the transfer and that there has been a past event. The AASB is concerned that the proposed criteria 'no practical ability to avoid' introduces a notion of economic compulsion into whether or not a liability exists, and unduly broadens the scope of liabilities to include instances of economic dependency. For example, it appears that provisions for future maintenance of property, plant and equipment used in the period

Comment [EL7]:
Note 5 to Board members:
The draft response pertaining to the definitions of income and expenses is consistent with the AASB's previous view communicated in its supplementary paper to the AASB's submission on the IASB's Conceptual Framework Discussion Paper (refer paragraphs S31-S32).

Comment [EL8]:
Question 6 to Board members:
Do Board members have any concerns about the matters currently raised in the draft response relating to the liability definition and the description of a present obligation?

would now meet the definition of a liability, as might the expected future operating losses of a start-up company. The AASB also thinks that it would be difficult to apply the criterion 'no practical ability to avoid' when different stakeholders (who are all part of 'the entity'; for example, management, directors, and shareholders) may have different perspectives on whether the entity has no practical ability to avoid making a transfer with respect to paying a dividend, or undertaking corporate social responsibility activities.

The AASB considers that the Conceptual Framework needs to clearly distinguish identification of a liability from recognition of the liability, and from measurement of the liability. For example, in the case of royalties from using another entity's intellectual property, it is clear that a liability exists; the real issue is the measurement of the amount of that liability.

The AASB considers that the definition of a liability needs to be appropriate to address both claims against the entity, and to assist in distinguishing the classification of transactions as liabilities or as equity. For example, under the proposals, the AASB thinks that dividends may meet the definition of a liability where there has been a long-standing practice of paying dividends or there is an announced dividend policy – however, the appropriateness of the classification as a liability versus equity is likely to be considered only as part of the IASB's Financial Instruments with Characteristics of Equity project. The AASB would encourage the IASB to wait to make amendments to the definition of a liability until such time as outcomes of that project are known. If the IASB decides to proceed with its liability definition proposals as part of this phase of the project, the AASB would strongly recommend that the IASB flag its preparedness to further amend the definition in the Conceptual Framework following the completion of the Financial Instruments with Characteristics of Equity project.

The AASB is concerned that the proposed amendments to the definition of a liability, including the description of a present obligation, has been designed to solve concerns about issues addressed in IFRIC 21 *Levies*. However, the AASB thinks that the proposed past event criterion might provide a sufficient basis for addressing the levies issue. Further guidance could potentially build on the existing notions in the ED that the 'past event' is the receipt of benefits or the conduct of activities over time (that is, a series of transactions), rather than an 'event' such as a signed contract, enacted legislation or point in time that a certain threshold is triggered.

Question 5 – Other guidance on the elements
Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

[Response to be drafted, and to include comments on unit of account]

Question 6 – Recognition criteria
Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

Comment [EL9]:
Question 7 to Board members:
Do Board members agree with the staff recommendation to support the IASB's proposed approach to recognition?

The AASB broadly **agrees** with the approach to recognition set out in paragraph 5.9 of the ED. However, the AASB thinks it needs to be clear that the cost-benefit assessment is not an opportunity for preparers to avoid recognition of an element that is not addressed in an IFRS.

In addition, the AASB is concerned that paragraph 5.9 seems to imply that the recognition of an element is dependent on whether the related other element also meets the criteria for recognition. The AASB thinks that the recognition of an element should be independent of whether the related other element also meets the criteria for recognition (for example, the recognition of an asset should not be restricted to cases when the related income or change in equity provides relevant and faithfully representative information within cost-benefit constraints).

Secondly, and more significantly, the AASB is concerned about the discussion pertaining to the determination of relevant information. The AASB thinks it needs to be clear that the indicators in paragraph 5.13 as to whether information is relevant should not be considered in isolation, but may need to be traded-off against one another. For example, the AASB considers that derivatives which may have a low probability of giving rise to future cash flows should be recognised when the magnitude of the outcome may be material. Further, the AASB does not consider that high measurement uncertainty alone is sufficient to avoid recognition, as this may result in arguments against recognising liabilities such as lawsuits and provisions for rehabilitation.

The AASB is also concerned about the reference to "low probability". The AASB thinks that this is subjective because it is a relative term, and will be open to interpretation.

Question 7 – Derecognition

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

Comment [EL10]:
Question 8 to Board members:
Do Board members agree with the staff recommendation to disagree with the IASB's proposed discussion of derecognition?

Note 6 to Board members:
Staff understand that one of the concerns with a control approach is that sale and repurchase agreements may qualify for derecognition. If time permits, staff will consider developing a suggested solution to address this concern.

The AASB **disagrees** with the proposed discussion of derecognition. The AASB supports a 'control' rather than 'risks and rewards' approach. While the AASB considers that an assessment of 'risks and rewards' is likely to be useful in a 'control' approach, the AASB does not think that it should be regarded as a principle in its own right.

The AASB considers that either the derecognition criteria should mirror the recognition criteria or it should be stated that derecognition occurs when the element no longer meets the recognition criteria. Accordingly, the AASB questions whether the Conceptual Framework needs to include guidance on derecognition. If the IASB decides to retain guidance on derecognition in the Conceptual Framework, the AASB thinks that the Conceptual Framework needs to include principles to address the partial derecognition of assets and liabilities. In particular, the AASB considers that the discussion needs to clearly link to the discussion in Chapter 4 about the rights controlled by the entity, and the appropriate unit of account.

Question 8 – Measurement bases

Question 9 – Factors to consider when selecting a measurement basis

Question 10 – More than one relevant measurement basis

Question 8 – Measurement bases

Question 9 – Factors to consider when selecting a measurement basis

Question 10 – More than one relevant measurement basis

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

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

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

The AASB considers the objective of the measurement chapter as proposed is unclear, and notes that it appears to be a description of current practice rather than a conceptual set of principles and guidance.

While the AASB considers the Chapter to be an improvement from IASB DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*, at a fundamental level, the AASB **disagrees** with the measurement proposals of the ED. The AASB considers that the Conceptual Framework should aspire to current value as a measurement basis, and in its submission on IASB DP/2013/1 dated 11 February 2014 outlined the thinking that would need to underpin the development of a single measurement basis. The AASB acknowledges that, at a standards-level, different measurement bases may be applied.

The AASB does not support a mixed measurement approach. A key problem for users is that different transactions are measured using different measurement bases, giving rise to inconsistent outcomes that are then aggregated into financial statements. The AASB considers that the Conceptual Framework should provide a single measurement basis, and to aim to solve this long-standing problem, even if there seems to be little prospect of short-term success. If the single measurement objective is not set out, standard setters have little prospect of ever achieving greater convergence of measurement bases.

The AASB is cognisant of the challenges the IASB faces in developing its measurement proposals, given the global diversity in views in this regard. While the AASB would prefer the measurement proposals to be developed further before being included in a revised Conceptual Framework, if the IASB is not minded to establish a single measurement basis as part of its current project, the AASB would at this time, broadly support the IASB's proposed measurement guidance provided that the content remains sufficiently flexible to allow for future evolution in financial reporting. However, the AASB does not support expanding the guidance in the Conceptual Framework with regard to the use of a 'business model' approach at this time, as the AASB considers that further work and consideration in this regard is necessary, including further consultation.

Comment [EL11]:
Note 7 to Board members:
Staff expect to add to the draft response by providing comments on specific concerns with the discussion in the measurement chapter, including on the discussion on historical cost.

Question 9 to Board members:
Do Board members agree with the staff recommendation for the submission to express broad support for Chapter 6 (Measurement) as currently drafted, despite disagreeing with the chapter at a fundamental level?

The AASB particularly objects to the discussion in paragraph 6.18 of the ED (under the 'historical cost' heading) of current cost. The AASB thinks this would add to the confusion about the nature of different entry prices and their use under different measurement models. It would be less confusing to discuss current cost under the 'current value' heading.

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

[Response to be drafted]

Question 12—Description of the statement of profit or loss **Question 13 – Reporting items of income or expenses in other comprehensive income** **Question 14 – Recycling**
Do you support the proposed description of the statement of profit or loss? Why or why not? If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition. Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? If you disagree, what alternative do you suggest and why? Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?

The AASB supports the proposed description of the statement of profit or loss in paragraph 7.20, but considers the description to apply equally to OCI. The AASB considers that the Conceptual Framework needs to first address what profit or loss is intended to represent and to be able to define profit, before making decisions on the use of OCI, including when items might be recycled (or whether recycling is an appropriate concept in reporting performance). Participants in the AASB outreach generally agreed that, in a framework that draws a distinction between profit or loss and OCI, it is a major inadequacy for neither of those terms to be defined.

Fundamentally, the AASB considers that there should be only one income statement. The AASB considers that while profit or loss or OCI may be a useful disaggregation tool for application at a standards-level, it is not a principle that should be included in a Conceptual Framework. By building a profit or loss/OCI distinction into the Conceptual Framework, the IASB is potentially constraining its ability to develop better, more useful, disaggregations within the income statement. The AASB thinks that the disaggregation could potentially be managed through the use of better labelling or subheadings, similar to an approach the AASB understands the IASB is currently considering in its Principles of Disclosure project with respect to non-IFRS information. Accordingly, the AASB

Comment [EL12]:
Note 8 to Board members:
The draft response below reflects the Board's view in its response to the Conceptual Framework Discussion Paper that there is a single statement of financial performance, and accordingly, that there should be no recycling from OCI to profit or loss, as amounts may only be recognised as income or expense once. This remains the staff view.

Question 10 to Board members:
Do Board members consider that its response should promote the view that there is only a single statement of financial performance, and accordingly, that there should be no recycling from OCI to profit or loss (0% recycling)? Alternatively, do Board members consider that, on the basis that it is unlikely that the IASB will significantly amend their proposals in this regard, its comment letter should instead adopt a view that all items in OCI must be recycled into profit or loss, as it is the primary indicator of financial performance (100% recycling)?

considers that the Conceptual Framework does not need to include a discussion on other comprehensive income, and that recycling is inappropriate.

As the IASB has yet to define profit, it also appears inappropriate for the Conceptual Framework to include a discussion on OCI (setting OCI up as a ‘concept’), as the definition of profit may encapsulate OCI.

However, the AASB is cognisant of the challenges the IASB faces in developing its proposals in this regard, given the global diversity in views as to the nature and use of other comprehensive income, and the recycling of OCI amounts into profit or loss. Accordingly, while the AASB’s preference is for the proposals to be developed further before being included in a revised Conceptual Framework, if the IASB were to proceed with incorporating OCI in a revised Conceptual Framework, the AASB could broadly support the proposed guidance provided that the content remains sufficiently flexible to allow for future evolution in financial reporting, including any outcomes from the IASB’s current Primary Financial Statements project.

The AASB is aware that some of the IASB’s constituents propose that the Conceptual Framework should reference the use of the business model to distinguish between when income and expenses are presented in the statement of profit or loss versus OCI because the proposals relating to the business’ activity may dictate its choice of measurement basis. The AASB does not support expanding the guidance in the Conceptual Framework in this regard at this time, as the AASB considers that further work and consideration on the use of a ‘business model’ approach is necessary.

The AASB would strongly encourage the IASB to undertake further work in the area of financial performance, and not lock into the Conceptual Framework notions that could be a barrier to progress.

Question 15 – Effects of the proposed changes to the Conceptual Framework
Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

[Response to be drafted]

Question 16 – Business activities
Do you agree with the proposed approach to business activities? Why or why not?

[Response to be drafted]

Question 17 – Long-term investment
Do you agree with the IASB’s conclusions on long-term investment? Why or why not?

[Response to be drafted, and to include comments pertaining to the maintenance of operating capacity]

Question 18 – Other comments
Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

[Response to be drafted]

APPENDIX B: AASB comments on IASB ED/2015/4 *Updating Reference to the Conceptual Framework*

Question 1—Replacing references to the Conceptual Framework
The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective. Do you agree with the proposed amendments? Why or why not?

[Response to be drafted]

Question 2—Effective date and transition
The IASB proposes that: (a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted. (b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations. Do you agree with the proposed transition provisions and effective date? Why or why not?

[Response to be drafted]

Question 3—Other comments
Do you have any other comments on the proposals?

[Response to be drafted]