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A Review of the IASB's Conceptual Framework for Financial Reporting
ITC 29
DP/2013/1

Dear Sirs

In relation to the above exposure draft I would like to comment as follows.

Question 2:

1. Changes to the definition of an asset and a liability recognizing that they present resources and obligations are considered appropriate. The reference to future economic benefits and sacrifices confuses the issue of measurement with definition.
2. The changes relating to control for assets and obligation for liabilities are more problematic. My views are shaped by the belief that accounting operates in an economic context, and that an integral part of recognizing an asset is the ability to control its use. This likely has implications for consolidation and circumstances where partial use of an asset (25% interest in a cable) is acquired. This is also inconsistent with the general understanding of assets by users. In relation to liabilities I support the view that liabilities be practically unconditional. This again reflects the belief that accounting operates in an economic context, and can be considered the parallel requirement to above for assets. It also recognizes that if a strictly unconditional view were prescribed this would likely lead to transactions being structured to avoid legal obligation and avoid recognition.

Question 3:

3. I do not support the omission of uncertainty from the definition's of assets and liabilities if this leads inexorably to a probabilistic / expected value measurement system for all assets and liabilities. This would elevate complexity in financial reports and increase significantly subjectivity in the preparation of financial reports. I interpret 'expected' as sufficiently likely, and indicating a dichotomous approach to recognition (0/1), and as such it is not a statement

about measurement. Clarification on the interpretation of 'expected' and its implications for regulations could be provided.

Question 10:

4. The framework should retain equity as a residual amount, but the proposals to measure equity are inconsistent with this. Measuring equity as a residual avoids the possibility that an item either meets the definition of both and liability and equity, or neither. Additionally, you can't measure a residual, and any attempts to do so will require the inclusion of a balancing item which can't be independently determined.

Question 16:

5. In the framework there is no 'strategy' or basis for considering presentation and disclosure issues should be addressed. Presently the format of financial reports is simply to use the financial reports as a 'coat hanger' from which notes are referenced, and there is no consideration of the disparate capabilities of financial statement readers. It seems they are all presumed to be experts. Adopting a presentation strategy whereby more novice readers could simply read and appreciate the major statements (presentation) is one possibility. Such a strategy might also address the increasing incidence of non IFRS / proforma income numbers being promoted by companies. This suggests that note disclosure adds detail for more expert users of financial reports.

Questions 19-21

6. Again it seems as there is no strategy or framework for distinguishing components of income and OCI and this suggests a continuation of the current situation where companies have been able to completely lose expenses in OCI (e.g., defined benefit plan accounting). This seems to identify some income (gains) and expense (losses) items as more / less relevant by nature when there may be no evidence of this, and it further justifies the disclosure of non IFRS / proforma income disclosures (evidenced by these adjustments occur in the income statement as well). This also ignores two fundamental relations that should exist in sets of financial reports, and this would make the use of such statements more complex and difficult (e.g., valuation models using comprehensive income).
    a. Balance sheets (opening and closing) and income statements should articulate.
    b. All income (gains) and expense (losses) items should be included in the income statement, at some time. There may be issues with timing, in which case use OCI for deferral. However, all items should be recycled into income and OCI should sum to zero over time.

I would like to thank you for this opportunity to comment on this Discussion Paper.

Yours faithfully

Peter Wells