Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

10 December 2015

Dear Kris

Re: Exposure drafts 264 *Conceptual Framework for Financial Reporting* and 265 *Updating References to the Conceptual Framework*

I am enclosing a copy of PricewaterhouseCooopers' response to the International Accounting Standards Board's exposure drafts ED/2015/3 *Conceptual Framework for Financial Reporting* and ED/2015/4 *Updating References to the Conceptual Framework*

The letter reflects the views of the PricewaterhouseCoopers (PwC) network of firms. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment
We recommend that the IASB's conceptual framework is adopted without changes. Where necessary, the AASB should refer to the IPSASB framework in developing not-for-profit and public sector specific standards and guidance, being mindful of retaining sector neutrality at the same time. We do not believe that the AASB should attempt developing a combined framework that addresses both sectors. In our view, the AASB's resources are better utilised elsewhere.

Should the revised Framework be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 0309 if you would like to discuss our comments further.

Yours sincerely,

S Rugers

Sean Rugers
Partner, PricewaterhouseCoopers

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International Accounting Standards Board
30 Cannon Street
London
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25 November 2015

RE: Exposure Drafts: Conceptual Framework for Financial Reporting (ED/2015/3) and Updating References to the Conceptual Framework (ED/2015/4)

PricewaterhouseCoopers is pleased to respond to the IASB's invitation to comment on the Exposure Draft, *Conceptual Framework for Financial Reporting* (the "ED" or "Framework"). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the ED.

We support the IASB's efforts to revise the Conceptual Framework and believe the proposals in the ED will improve the current Framework. The Framework is evolutionary and thus we agree with the IASB's approach of updating, improving, and filling in gaps without fundamentally reconsidering all aspects of the Framework. We note that additional updates may be warranted in the future when decisions at the standards level significantly advance the thinking on Framework-level concepts (for example, future improvements to the distinction between liabilities and equity).

We generally support the changes to the Framework, but suggest some clarifications.

Purpose

We agree that the primary purpose of the Framework is to assist the IASB in standard setting. The Framework can also be used to help preparers understand existing standards and, in the rare cases when there is no guidance, help them develop an appropriate accounting policy.

Importantly, we believe the balance between cost and benefit should be used by the Board in standard setting, not by preparers in applying the standards. Said differently, individual preparers should not attempt to use the cost constraint to justify noncompliance with an existing standard.

Objective of financial reporting and qualitative characteristics

We agree that the objective of general purpose financial reporting is to provide financial information about the reporting entity to aid investors' and creditors' decision-making. We further agree that investors and creditors are the "primary users" of general purpose financial reports. Also, to avoid conflicting purposes and disclosure overload, general purpose financial reports are not primarily directed at other interested parties, such as regulators and other members of the public.

We agree with including stewardship more prominently as part of the objective of financial reporting. We do not disagree with including prudence in the Framework, provided it is accompanied by the IASB's definition that supports neutrality. We believe financial statements should reflect a neutral depiction of an entity's results of operations and financial performance. Any "conservative" bias in financial reporting necessarily results in aggressive bias in future periods. A balanced, fact-based, and objective assessment of economic circumstances removes entity-specific bias and leads to the most comparable financial reporting across entities.

Reporting entity

The reporting entity is an important concept for defining the context of the financial statements. We support the IASB's flexible approach to defining the reporting entity. However, we believe that stakeholders would benefit from additional explanation of the potential scenarios or structures – the "set of economic activities" – when the reporting entity may be defined as a combination of legal entities that are not necessarily under common ownership (that is, combined financial statements) or a part of a legal entity (for example, a carve out entity).

The meaning of "direct control" and "direct and indirect control" as a way to determine the boundary of a reporting entity is not clear. Many would consider "direct control" to exist through a controlling financial interest in the equity of an entity whereas indirect control would be analogous to control by contract or through other variable interests. As the terms are not clear and not necessary, we propose they be deleted.

Elements

We agree with the definition of an asset and the related definition of an economic resource, and we agree with a model in which equity is defined as the residual of assets less liabilities.

We understand that resolving the question of the distinction between a liability and equity would significantly delay this current update to the Conceptual Framework, but are nevertheless concerned that even the seemingly-narrow proposed changes to the definition of a liability (in combination with a model in which equity is the residual) in advance of the *Financial Instruments with Characteristics of Equity* (FICE) project may further confuse an already complicated distinction. We do not object to the IASB proceeding with the proposed changes now, but we strongly encourage the Board to move forward with the FICE project as a high priority.

Additional updates to the Framework may be warranted in the future when decisions at the standards level significantly advance the thinking on Framework-level concepts. The FICE project is one that might result in significant new conceptual views that could warrant revisiting the Framework.

We believe the phrase "no practical ability to avoid" in the context of conditional liabilities may be difficult to apply and could continue to create diversity in practice. We note that the phrase "no realistic alternative" is used extensively in existing IFRS, often in the context of liabilities, and might be more effective in achieving the same objective.

Recognition and derecognition

We agree with the Board's overall approach to recognition – essentially that recognition is triggered when the definition of an element is met, subject to the recognition criteria. However, we do not believe that cost-benefit should be a criterion for recognition because cost-benefit considerations are an overarching concept already articulated in the ED.

The derecognition guidance is unclear as to what the acceptable models are and when and how they should be applied. The ED begins with a control approach with risks and rewards as an indicator of control, but the Basis for Conclusions indicates that the ED does not advocate using either the control-based or risk/rewards approach in all circumstances. Also, the discussion of retained components and whether those are parts of the original asset or liability or a new asset or liability, as well as whether a party is acting as principal or agent, is unclear.

Measurement

We agree that a mixed measurement model continues to be appropriate for meeting the information needs of users, and that historical cost and current value are the two broad categories of measurement bases. However, some aspects of the way the two measurement bases are portrayed are not clear. In particular, the ED notes that historical cost includes adjustments for impairment and consumption. We believe historical cost adjusted for impairment becomes a current value measure once the impairment is recognised (although it may not remain a current value measure if it is not subject to regular remeasurement) and suggest that the Board clarifies the language accordingly.

The ED describes only two current value measures: (1) fair value and (2) value in use (for assets)/fulfilment value (for liabilities). The ED appears to distinguish between fair value, which is a market participant-based measure, and value in use/fulfilment value, which are entity-specific. However, that distinction is not clearly articulated. Further, existing IFRSs (for example, provisions, pension liabilities) contain a number of other current value measures, some of which are neither fully market participant-based nor entity-specific. We suggest the Board performs an inventory of the various measures used in current IFRS, and describe a broader variety in the Framework.

We agree with the proposed factors to consider in selecting a measurement basis, including the fact that business activities could impact the measurement basis (that is, the business model concept). We disagree, however, with the assertion that initial measurement and subsequent measurement cannot be considered separately. In fact, at initial measurement, arguably historical cost and fair value will often be the same, but current IFRS already requires certain assets and liabilities to be recognised in subsequent periods using a different measurement basis.

Presentation and disclosure

We support profit or loss as the primary performance indicator with other comprehensive income (OCI) used to reflect those changes in assets and liabilities that are not recognised in profit or loss. Because of the importance that some investors place on profit or loss, we believe all items of income and expense should be recycled when the reason for initial exclusion from net income no longer applies.

Our answers to the specific questions in the ED provide more detail on these summary views and are included in the Appendix.

If you have any questions on this letter, please contact Paul Fitzsimon (+1 416 869 2322) or Tony Debell (+44 20 7213 5336).

Yours sincerely

PricewaterhouseCoopers

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Appendix

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?

(a) We agree with including stewardship more prominently as part of the objective of financial reporting. The ED seems to contemplate stewardship only with respect to equity and debt holders' decisions about buying, selling, or holding. Although not the primary focus, the information provided in financial statements may be used to consider other assessments of stewardship, such as when making decisions related to the remuneration of key management at shareholder meetings. We suggest that this be mentioned in the Framework or Basis for Conclusions.

As a drafting note, the ED lists stewardship as part of the objective of financial reporting in paragraph 1.4, but then explains stewardship separately in paragraphs 1.22 and 1.23. All of the guidance on stewardship should be together for ease of understanding.

(b) We agree that financial statements should reflect a neutral depiction of the entity's results of operations and financial performance. Therefore, we agree with including prudence in the Framework, provided it is accompanied by the IASB's definition which supports neutrality. There is no shared understanding among stakeholders of what prudence means, therefore it could be interpreted differently. Without the definition, some constituents may inappropriately view prudence as analogous to conservatism.

Prudence reflects a degree of caution in the exercise of judgement, but does not reflect, for example, the recognition of liabilities that do not exist. We agree with the view expressed in paragraph 2.18 that conservatism in one period means optimism in the next. We also agree that neither conservatism nor asymmetric prudence, which is described in the Basis for Conclusions, should be a principle in the Framework as neither would provide investors with decision-useful information. Paragraph IN5(a) states that the Framework "contributes to transparency by providing the foundation for Standards that enhance the international comparability and quality of financial information..." We believe this transparency and comparability are best served through neutrality.

Prudence refers to judgements under uncertainty. To improve its definition, we suggest that the guidance explicitly mentions both judgements and estimates, as they are separate concepts in IAS 1.

Finally, we note that prudence refers both to preparer behaviour and standard setting. This is noted in the Basis for Conclusions, but it should be explicit in the Framework. As drafted, the Framework only discusses the neutral presentation of assets and liabilities, not the Board's consideration of how to achieve a neutral depiction of financial information in future standards.

(c) We agree that substance over form is an element of faithful representation. Paragraphs 4.53 through 4.56 describe substance over form as an analysis of rights and obligations. We believe it should be explained more broadly, and consider not only the impact on the balance sheet but also on the income statement. In addition, we believe the guidance should address whether substance over form is primarily an accounting issue (that is, accounting does not represent the economics) or a legal/contractual issue (that is, the contract does not represent the economics).

(d) Relevance is defined in paragraph 2.6 as "[that which] is capable of making a difference in the decision made by users." The ED states that measurement uncertainty is one factor that makes information less relevant. However, we believe this depends on how relevant information makes a difference to the decision-maker.

We believe that information might not be relevant because there is no measure that is faithfully representative, but uncertainty is not a measure of relevance in its own right.

Relevance may mean information one would like to know, or it may mean information one would weigh more heavily in decision-making. If relevant information is what a decision-maker would like to know, then measurement uncertainty does not necessarily make information less relevant. In that situation, the existence and size of the range of values is itself relevant. High measurement uncertainty may make it less reliable, although this term is no longer used in the Framework.

Relevance might also refer to how a decision-maker weighs information. If the decision-maker would not put much stock in information with high measurement uncertainty, then measurement uncertainty might decrease relevance. The distinction between information that is less relevant because of high uncertainty, and information, which despite the uncertainty, might still be relevant, should be clearer.

(e) We agree that relevance and faithful representation are the two fundamental qualitative characteristics of useful financial information. We further agree that reliability is more about measurement uncertainty, and should not be included as a qualitative characteristic.

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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?

(a) We believe it is a step forward for the Framework to address the concept of a reporting entity. We agree with the ED's flexible approach to defining a "reporting entity," but believe that stakeholders would benefit from some additional clarification.

The Framework should specify what types of entities a reporting entity may be. The Framework states that a reporting entity could be a legal entity or a portion of a legal entity. We suggest that the description be expanded to include the types of legal entities: a corporation, trust, or partnership, and the types of portions of legal entities: a business, branch, division, or grouping thereof.

The definition of a reporting entity in relation to the definition of general purpose financial statements is circular. The ED defines a general purpose financial statement as one that provides information about a reporting entity, and defines a reporting entity as an entity that issues its own general purpose financial statements. We suggest that the guidance on general purpose financial statements be clarified. The ED defines general purpose financial statements as one kind of general purpose financial report. Are there other kinds of general purpose financial reports? If so, we suggest that the Board includes additional examples of general purpose financial reports in the Framework. This would help stakeholders distinguish between general and special purpose financial reports.

Most importantly, we agree that a reporting entity might be a combination of entities for which there is no parent and subsidiary relationship, but believe that the definition should contemplate that more explicitly. Although combined financial statements are expressly permitted in paragraph 3.17, there is limited guidance in this area, which is a significant practice issue. We agree that most details about combined financial statements are better left to the standards level and we encourage the IASB to take on a project in that area, but we recommend that the Board adds concepts to the Framework that form a boundary for combined financial statements.

The Framework should not include an exhaustive list of criteria. However, one overriding concept should be that combined entities should have a binding element, such as common control or common management. Further, we believe the Framework should state that appropriately-combined financial statements are IFRS-compliant general purpose financial reports. Financial statements of entities combined without a sufficient binding element would be special purpose reports. Such special purpose reports would include financial statements that reflect transactions that have not yet happened.

Finally, combined financial statements are explicitly mentioned, but carve out financial statements, which are common in practice, are not. We suggest the Framework states that carve out financial statements for entities with a sufficient binding element are IFRS-compliant general purpose financial reports as well.

Financial statements

We agree that consolidated financial statements are "more likely" to be relevant in many situations. However, we believe the Framework should note that there are circumstances in which separate financial statements also provide relevant information for investors and creditors, the primary users of the financial statements. Trade creditors, providers of working capital, and investors interested in an entity's capacity to pay dividends might consider separate financial statements relevant. Also, there are other circumstances in current IFRS in which separate financial statements are more relevant than consolidated statements, such as for investment entities.

(b) The meaning of "direct control" and "direct and indirect control" as a way to determine the boundary of a reporting entity is not clear. Many would consider "direct control" to exist through a controlling financial interest in the equity of an entity, whereas indirect control would be analogous to control by contract or through other variable interests. As the terms are not clear and not necessary, we propose they be deleted.

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?

We agree with the list of elements: assets, liabilities, equity, income, and expenses. We also agree with not defining elements for cash flows or contributions/distributions from/to holders of equity claims.

(a) We agree with the definition of an asset and the related definition of an economic resource, although we believe the word "present" is not necessary.

We agree with the guidance on "control" in the ED. The definition of control encompasses two components – (1) the ability to direct and (2) economic benefits. Both of these components are essential to determining whether an entity has control over a resource.

We are aware that some have questioned whether goodwill meets the definition of an asset, in particular, whether it constitutes a present economic resource (a right) controlled by the entity.

We suggest that the IASB considers whether goodwill meets the revised definition of an asset and explicitly address that in the Framework or Basis. The Board does not appear to intend to narrow the concept of an asset to exclude goodwill, but we believe it would help avoid uncertainty on this matter if the guidance were more explicit.

(b) See response to Question 5 for observations on the definition of a liability.

(c) We support defining equity as the residual interest and using the definition of a liability to distinguish liabilities from equity instruments. Both liabilities and equity represent claims against an entity's assets, and presenting these claims as two separate elements provides useful information. Defining both equity and liabilities independently of each other would likely result in some items being captured in both definitions and others being captured in neither.

Equity as the residual interest of the entity simplifies the distinction between liabilities and equity at the conceptual level. This approach is also consistent with the widely-accepted idea that equity represents claims on the assets after all other claims are settled. Although we support defining equity as the residual interest, we believe that difficult decisions will still be needed in the FICE project for complex financial instruments. See response to Question 5.

(d) / (e) We agree with the economic income concept used to define income and expenses in terms of assets and liabilities.

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?

See response to Question 5.

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.

Rights

The guidance in paragraph 4.9 states that goods or services, for example, employee services, that are received and immediately consumed, are momentarily rights to obtain economic benefits. This guidance is consistent with the recognition of compensation expense for a share-based award.

We suggest that the Framework be clarified as we believe consumption of any good or service that is momentarily a right to obtain economic benefits – not just employee services – can result in an expense, regardless of how it is paid for, even if it is with the issuer's own equity. In other words, the consumption of an asset determines whether there is an expense, not how that asset is paid for.

Financial instruments with characteristics of equity

We understand that resolving the question of the distinction between a liability and equity would significantly delay this current update to the Conceptual Framework, but are nevertheless concerned that the proposed seemingly-narrow changes to the definition of a liability (in combination with a model in which equity is the residual) in advance of the FICE project may further confuse an already complicated distinction. We do not object to the IASB proceeding with the proposed changes now, but we strongly encourage the Board to move forward with the FICE project as a high priority.

We suggest that additional updates to the Framework may be warranted in the future when decisions at the standards level significantly advance the thinking on Framework-level concepts. The FICE project is an example of a project that might result in significant new conceptual views and could warrant revisiting the Framework.

The Board acknowledges in BCE.7 that proposed changes to the Framework are inconsistent with the current accounting for certain instruments (share-settled financial assets and liabilities and puttable instruments). Paragraph 4.30 illustrates one area of potential change in interpretation in the context of financial instruments with characteristics of equity. It states, "an equity claim does not contain an obligation to transfer economic resources. Furthermore, an equity claim is not an economic resource for the issuer. It follows that an obligation of an entity to transfer its own equity claims to another party is not an obligation to transfer an economic resource."

Paragraphs 4.48 and 4.49 note that the definitions of income and expense exclude contributions/distributions from/to holders of equity claims, and paragraph 4.50 states that it follows from those definitions that transactions with holders of equity claims acting in that capacity do not give rise to income or expenses. We assume the term "acting in that capacity" means acting only as an equity holder (that is, not as an employee or in some other capacity). However, it would be helpful if the Framework further defined contributions/distributions from/to holders of equity claims so stakeholders could interpret what "acting in that capacity" means. In the absence of standards-level guidance, Framework-level concepts would assist with determining the appropriate accounting for some transactions that are problematic in practice, such as off-market intra-group loans and certain non-reciprocal benefits given to shareholders.

Liabilities

Our outreach indicates that users want more consistency and transparency regarding how preparers interpret the definition of liability. Our comments, therefore, suggest changes that would support transparency and consistent application.

Paragraph 4.24 of the ED defines a liability as a present obligation to transfer an economic resource as a result of past events. There are several aspects to the definition:

- present obligation
- transfer of an economic resource
- past event

We believe there are substantive Framework-level questions as to how to apply the definition. It is not clear how to apply the various parts of the definition individually or in combination, and whether the main definition in paragraph 4.24 is more important than the explanatory guidance in the paragraphs following and in the Basis for Conclusions. In some cases, parts of the guidance seem to contradict other parts.

Present obligation

A present obligation is defined as an obligation that (1) the entity has no practical ability to avoid and (2) has arisen from past events. Additional guidance in paragraph 4.39 supplements this definition. Paragraph 4.39 states that an entity does not have a present obligation for costs that will arise from benefits to be received in the future (e.g., the cost of future operations). It is not clear what the "cost of future operations" means. The lack of clarity might mean that some obligations are not be accrued as liabilities only because the benefit will be received in the future.

We note that paragraph BC4.21 indicates that the Board did not identify "any significant problems" from using the term 'present'. However, we believe it is redundant in this context. All obligations arise from past events. Further, we don't think it is necessary to emphasise that an "obligation" means one that exists now as opposed to one that might exist in the future.

Past event

The definition of a past event is conceptually and practically unclear. Paragraph 4.31(b) states that a present obligation "has arisen from past events; in other words, the entity has received the economic benefits, *or* conducted the activities, that establish the extent of its obligation." [*Emphasis added.*]

It is not clear that this should be as simple as an "or" statement. If an entity has conducted activities that establish the extent of the obligation, but not yet received the economic benefits, it is not obvious that recognition of a liability would always be appropriate.

Consider the example of significant leasehold improvements made by a lessee upon entering into a lease; these improvements will pass to the lessor at the end of the lease and might create an economic compulsion to extend the lease term after the initial term. One view is that making the improvements is a past event because the entity has "conducted the activities that establish the extent of its obligation." The entity has not yet received the economic benefit (that is, the right to use the leased space for a longer period), but this is not required because of the "or" language in paragraph 4.31(b) and 4.36. Another view is that because the entity has not yet received the economic benefit of the extended term, there is only an obligation in the future, or perhaps any arrangement to extend is an executory contract, which would only be recognised upon performance by one of the two parties.

If making the leasehold improvements *is* a past event, the other parts of the definition are evaluated to determine if, in totality, the definition is met and the rent for the extension period meets the definition of a liability. The entity would have to consider whether it has a present obligation when the amount of the obligation is a future operating cost, which may be viewed as contradicting paragraph 4.39, which states that an entity does not have a present obligation for the cost of future operations. We also note that the guidance in paragraph 4.25 may not be met because there does not appear to be a party with a corresponding asset.

Although the final outcome may not differ from current leasing guidance, the example demonstrates the difference in approach under the revised guidance in this ED and the questions that will arise in application.

Transfer of economic resource

A liability is defined as an obligation to transfer an economic resource; the definition should also state that an obligation *not* to do something (e.g., a non-compete contract) could be an obligation as well.

No practical ability to avoid

Paragraph 4.34 states that obligations can also arise from an entity's customary practices or policies that require the transfer of an economic resource. We believe it would be helpful to state that the practical inability to avoid arises because the entity's actions created an expectation with the other party. However, we believe certain customary practices, such as maintenance, should not result in a liability as there is not a counterparty to the obligation.

We also believe the phrase "no practical ability to avoid" may be difficult to apply, resulting in diversity in practice. Although paragraph BC4.71 states that the Board "thinks [the term] most effectively conveys the need to identify what the entity is able to do, instead of what the probable outcome will be," we suggest using the term "no realistic alternative" instead as it is already used extensively in IFRS[1], often in the context of liabilities.

Probability

We support the decision not to include a probability-based recognition threshold in the Framework. Outcome uncertainty is best addressed through measurement. A recognition threshold might be applied at a standards level if it is consistent with the recognition concept. The decision to include a threshold in a specific standard should be explained in the Basis for Conclusions.

Conditional liabilities

Paragraph 4.35 states that the requirement for an entity to transfer an economic resource may be conditional on a particular future action by the entity. We support the decision to explicitly state that conditional obligations are liabilities if the entity has no practical ability to avoid them. Limiting

[1] IAS 1.25, IAS 37.17, IAS 19.19, IAS 34.B3, IAS 34.B7, IFRIC 21.BC15, and IFRIC 21.BC16.

liabilities to obligations that are legal, contractual, or unconditional excludes useful information about future cash flows. However, we suggest that the Framework also notes that conditional events may be outside the control of the entity and/or the counterparty to the obligation, and that these too may result in liabilities.

Applying the parts of the liability definition as a whole

The notion that past events give rise to present obligations to transfer resources that the entity has no practical ability to avoid is not clear enough to be applied in practice. For example, paragraph 4.36 notes that "operating in a particular market" could be a past event if it quantifies the extent of the obligation. Operating in a specific market might leave an entity with no practical ability of exiting that market without "significant business disruption," which paragraph 4.32 states is not a way to avoid a liability. Continuing to operate in the specific market requires the transfer of economic resources. This guidance suggests that the entity has a present obligation. However, it is unclear how to apply the guidance in paragraph 4.39 in this case because some might argue that the amount of the obligation is a cost of future operations. Does the guidance mean there is no present obligation and no liability recognised in this case?

A conclusion that there would be no liability in this case would call into question the guidance in BC4.65, which states, in part, "... applying the proposed approach, liabilities would be identified as arising over time, unless the entity has the practical ability to avoid the remaining conditions (for example, leave the market) without significant business disruption or without economic consequences that would be significantly more adverse than paying the levy." That paragraph suggests that a levy, for example, would be a liability under the Framework. It does not consider that the amount is a cost of future operations.

Significant business disruption

We believe the phrase "significant business disruption" should be clarified, particularly since the interpretation of "significant" for any entity could change over time.

These issues demonstrate that several questions remain as to how to apply the various parts of the definition. We suggest that the Board considers working through some additional examples to identify concepts that require further clarification.

Executory contracts

Accounting for executory contracts is one area in which the elements guidance would have to be applied differently for financial instruments than for nonfinancial assets and liabilities. For example, many derivatives, such as those involving gross settlement that do not meet the "own use" exception, are executory contracts on day one in that neither party has performed its obligation. However, derivatives are accounted for initially at fair value (which is most often zero) and then subsequently as assets or liabilities depending on the change in fair value. In that way, derivatives are treated differently than how most other executory contracts would be treated under this guidance in which the reporting entity would wait for performance to happen before recording them.

The guidance on two-way performance needs clarification. In our view, it is not conceptually consistent with the definitions of asset and liability. The ED seems to override the definition of an asset or liability for an executory contract. It also seems to conflate unit of account questions with executory contract questions as it proposes to combine rights and obligations into a single asset or liability (as discussed in the *Unit of account* section of this letter). For these reasons, we suggest that the guidance on executory contracts be fully reconsidered.

Equity

Paragraph 4.44 indicates that a *right* to receive an equity claim is equity. However, from the perspective of the reporting entity, it is an *obligation* to provide an equity instrument and the Framework should be clarified.

Unit of account

The revised definitions of asset and liability put greater pressure on identifying the unit of account. The Framework should acknowledge this, and the IASB should be clear at the standards level about what unit of account has been selected and why.

We believe the Framework guidance on the unit of account could be enhanced in some areas. One instance is when different units of account are justified for recognition and measurement. There is limited discussion of this principle. It might be helpful to provide some further context on why this might be appropriate either through an example or explanation in the Basis for Conclusions.

Another instance is when rights and obligations are combined. Paragraph 4.41 states, in part, "That right, and the obligation [in an executory contract] ... are interdependent and cannot be separated. Hence, the combined right and obligation constitute a single asset or liability." Why, in the case of executory contracts, are the right and obligation considered interdependent and treated as a single item when in other instances they are considered separate units of account? If this is not explained, stakeholders might incorrectly analogise to this principle.

The executory contracts guidance and derecognition guidance both rely to some extent on unit of account concepts, so we suggest the Board reviews them together.

We believe the Framework should state that the IASB alone should make cost-benefit decisions. Paragraph 4.62(c) states that the costs of providing the information for that unit of account must not exceed the benefits; the Framework should clarify that that is a Board-level determination, not one to be made by preparers.

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?

We agree with the Board's approach to recognition in the ED. Recognition is triggered when the definition of an element is met, subject to the recognition criteria. We recommend clarification on some aspects of the guidance.

We agree that cost-benefit should be considered, but not specifically in the recognition criteria. The overarching concept is already included in the Framework and does not need to be mentioned specifically in the recognition section. As we noted, the Framework should be clear that the IASB alone should make judgements about cost being too high to recognise an asset or liability.

One criterion is whether recognition would result in "relevant information about the asset or the liability and about any income, expenses or changes in equity." We note that this refers to assets and liabilities and income and expense. There are situations when there is a choice between a balance sheet and income statement focus, and this text suggests that relevance and faithful representation should be achieved in all statements before an item is recognised.

Paragraph 5.7 states, in part, "The purpose of financial statements is not to show the value of the entity and therefore, not all assets and liabilities are recognised." However, this is not the reason that not all assets and liabilities are recognised. They are not recognised because they don't meet the recognition criteria. Even if all possible assets and liabilities were recognised, the value of the entity would still be based on the market's view of the entity's future prospects. We suggest the language be clarified to remove the linkage between these two unrelated concepts.

Paragraph 5.13(a) notes that recognition may not provide relevant information if it is uncertain whether an asset exists, or is separable from goodwill. It is unclear why there is a specific reference to goodwill in the criteria or in the guidance on existence uncertainty and separability in paragraph 5.15. Not all entities have goodwill, so a more universal way of describing this notion might be "an identifiable asset that is independent of the business as a whole." We also suggest that the guidance on existence uncertainty and separability be addressed in separate sections.

Paragraph 5.21 states that a high level of measurement uncertainty may mean that an asset or liability should not be recognised as the information will not be relevant. As noted in our response to Question 1(d), we disagree that measurement uncertainty affects relevance.

Paragraph BCIN.34 states that the IASB did not identify any situations in which consideration of an entity's business activities would be relevant to the recognition of assets and liabilities. However, the example in paragraph 4.36 of operating in a particular market discussed in our response to Question 5 is a business activity that would affect recognition.

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?

We agree with the broad objective of the accounting requirements for derecognition. However, the guidance is not clear as to which derecognition models might be applied and when to apply them. The ED begins with a control approach, with risks and rewards as an indicator of control, but the Basis indicates that the ED does not advocate using either the control approach or risk and rewards approach in all circumstances.

Paragraph BC5.57 states that the control approach better represents the assets and liabilities retained (i.e., a balance sheet focus) while the risk and rewards approach better represents the changes in the assets and liabilities (i.e., an income statement focus). We suggest that the Board adds this guidance to the Framework and provide additional considerations as to when each model is appropriate. The guidance in paragraph BC5.54(b) on how to "best portray" the changes that result from derecognition would be helpful and should also be moved from the Basis to the Framework.

It would be helpful to include more guidance on the application of the control and risks and rewards models when the two conflict. In particular, it is not clear how a reposting entity would determine which model should prevail when control is transferred and some, but not all, of the risks and rewards are retained, or when control is retained, but a significant portion of the exposure to risks and rewards is transferred.

We also note that the amount of exposure transferred is a key consideration for derecognition under current IFRS, but is not clear in the ED. Paragraph 5.29 only states that retaining exposure to variations in economic benefits "may indicate" that the entity retains control and derecognition is not appropriate.

The Board should consider adding to the Framework the degree of exposure that needs to be transferred such that derecognition would best reflect the substance of the transaction. For example, should "substantially all" exposure be transferred? We suggest that the Board evaluates whether including such guidance in the Framework would lead to more consistency than in current IFRS standards, which contain various interpretations about how much exposure has to be transferred, depending on the instrument.

The unit of account is also important in the context of the control approach. If the remaining asset is different, the original asset should be fully derecognised and a new asset recognised. If the asset remaining is the same, the unit of account might be defined at a lower level than the original asset, and the units that are no longer controlled should be derecognised (i.e., partial derecognition). This determination should be made at the standards level, but concepts as to when the unit of account has been split (as alluded to in paragraph 5.27) would be helpful in the Framework.

Paragraph 5.27 also states that no income or expenses would be recognised on the retained component upon derecognition of the transferred component. This may contradict the accounting for step-down transactions, which are viewed as complete derecognition of the larger interest and acquisition of a smaller interest; therefore, they may result in gains or losses upon derecognition.

The concept of principal and agent is also fundamental to the evaluation of control. This is not addressed sufficiently in the ED, which only states that derecognition is not appropriate when the transferor is acting as agent. We encourage the Board to include in its revised guidance on acceptable derecognition models how to determine when an entity is acting as principal versus agent in each model.

Finally, we note that the guidance in the Framework is inconsistent with some of the current derecognition models which also differ from each other. The control model, which is emphasised in the Framework, is consistent with recent standards, such as IFRS 10 and 15 and likely the forthcoming leasing standard, but not others. Most of the current models have a combination of control and risk/rewards, but the applications differ. For example, IFRIC 12 is a control model that does not require consideration of risk and rewards. In IAS 39, risk and rewards are considered first, then control is considered. Even among standards that call for a control model, there are different interpretations of control.

Modification of contracts

The Framework should require that derecognition be considered upon a modification of a contract. The proposed guidance is not clear. One example is paragraph 5.34. It indicates that it may be appropriate to treat the addition of rights and obligations that are "distinct" from those in the original contract as new assets and liabilities. However, this introduces the term "distinct" without a definition. The term has a specific meaning in IFRS 15 in the context of contracts with a customer. We assume the Board meant a different meaning in this context, and as a result, suggest the intended definition be clarified.

Question 8—Measurement bases

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?

We support a mixed measurement model. A single measurement basis does not always provide the most decision-useful information.

We also agree with the removal of the detailed rules in the Discussion Paper, and believe the resulting guidance in the ED is more appropriate for the Framework level.

(a) We agree that historical cost and current value are the two categories of measurement bases.
(b) We have the following observations on the descriptions of the measurement bases.

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Historical cost

We believe impairment is improperly characterised in the description of historical cost and suggest that it be clarified. Paragraph 6.6 describes impairment as other than a change in price. It states, in part, "the historical cost measures of assets or liabilities *do not reflect changes in prices*. However, the measures do reflect changes such as the *consumption or impairment* of assets and the fulfilment of liabilities." [*Emphasis added*] Paragraph 6.9 describes impairment as a change in cash flows.

Impairment of financial assets represents a change in price or cash flows. Impairment of nonfinancial assets could represent a change in price or cash flows or it could represent consumption, depending on the reason for the impairment, the particular instrument, and the particular impairment model used. Impairment in these circumstances could represent a change in price or cash flows. Therefore, it is not clear that an asset measured at historical cost less an impairment charge is actually still measured at historical cost. The adjustment for impairment may bring the asset to a current value measure (although it may not remain a current value measure if it is not subject to regular remeasurement). We therefore suggest that paragraph 6.6 not refer to impairment because impairment actually changes the measurement basis from historical cost to current value. Other conforming edits to paragraphs that include impairment guidance, such as paragraph 6.16, may also be necessary.

We also believe consumption may not be clearly characterised in the ED. In this case, however, consumption is characterised as a value change, and we believe it is not. Paragraph BC7.46 states, in part, "... the items ... relate to transactions and events of the period, such as consumption of an asset ..., but not to other changes in the value of assets and liabilities." We believe consumption is an accounting convention, although one meant to approximate the loss of value over time, and agree that historical cost adjusted for consumption remains a historical cost measure. However, we recommend that the language be clarified.

The other distinct measurement concept not mentioned in the ED is real versus nominal currency measures. The Board should consider the consistency of the Framework with IAS 29, which describes financial statements that are restated because of hyperinflation as historical cost financial statements.

Current cost is described under the historical cost heading. However, we believe current cost is a distinct measurement base. The justification for current cost based on the significance of price changes is incomplete. Paragraph 6.18(a), for example, states that it would be predictive of future margins, but this may not be the case if prices increase or decrease. A current cost model seeks to maintain physical capital when prices are rising.

We agree that historical cost and current cost are predominantly entry measures. This explains one of the benefits of historical cost; it can be used to calculate margin because exit price less entry price equals profit.

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Current value

The ED describes two current value measures: (1) fair value or (2) value in use for assets and fulfilment value for liabilities. However, it is not clear whether the Board is referring to value in use as the concept in IAS 36, or generically as an entity-specific measurement. The ED appears to distinguish between fair value, which is a market participant-based measure, and value in use/fulfilment value, which are entity-specific. However, the distinction is not clearly articulated. Further, existing IFRSs (for example, provisions, pension liabilities) contain a number of other current value measures, some of which are neither fully market participant-based nor entity-specific. We believe the Board should perform an inventory of the various measures used in current IFRS, and describe a broader variety in the Framework.

We also suggest that more language about the differences in current value measures might be useful to aid in understanding when each one is appropriate.

We believe the Framework should note that fair value generally equals historical cost on day one.

Finally, we suggest that the guidance in paragraph 6.33 on specialised items might apply to all types of items. In all instances, in estimating fair value, there may sometimes be little reason for the entity to assume that market participants would use assumptions different from those that the entity itself uses. In that case, measurement from a market participant perspective and measurement from the entity's perspective are likely to produce similar measures.

Question 9—Factors to consider when selecting a measurement basis

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

We agree with the factors to consider in selecting a measurement basis, which are based on the qualitative characteristics, including the fact that business activities may impact the measurement basis.

We believe the guidance in paragraph 6.52 that initial measurement and subsequent measurement cannot be considered separately requires clarification. Paragraph 6.52 states, "if the initial measurement basis and subsequent measurement basis are *not consistent*, income and expenses will be recognised solely because of the change in measurement basis. Recognising such income or expenses might appear to depict a transaction or other event when, in fact, no such transaction or event has occurred. Hence, the choice of measurement basis for an asset or a liability and the related income or expenses is determined by considering both the initial measurement and the subsequent measurement." [*Emphasis added*]

Does the phrase "not consistent" mean that the measurement bases need to be the same? We believe they do not. The Board should consider current circumstances in which initial and subsequent measurement bases differ, particularly when an asset or liability is measured at current value initially and then at a different current value subsequently. For example, asset retirement obligations are measured at fair value in a business combination, and then remeasured under IAS 37. Also, IPR&D is measured and recorded at fair value at acquisition, then subsequent expenditures are not recognised until they begin to be capitalised in the development phase. The Framework should not require the same initial and subsequent measurement basis if there is a conceptual basis for them being different.

We also wonder why there is separate guidance for factors to consider when selecting a measurement basis initially and subsequently if, in fact, initial and subsequent measurement cannot be considered separately.

Paragraph 6.55 states that measurement uncertainty directly impacts relevance of the information provided by a measurement basis. As noted, we believe this may not be the case and it should be edited. See response to Question 1(d).

Exchanges of items of different values

We suggest that the IASB explores how historical cost is measured in exchanges of unequal value. Table 6.1 states that historical cost results in the immediate recognition of income/expense on exchanges of unequal value. However, if an asset's "cost" is deemed to be the amount given up at initial recognition, this would not happen (that is, the values of the two assets in exchange would be "forced" to be equal because the definition of historical cost refers to the consideration given). Paragraphs 6.6-6.18 do not consider the exchange of items of unequal value and should cross-reference to paragraphs 6.70 and 6.71.

Consider as an example an exchange of a machine currently recorded at $100 for a new machine worth $110. What is recorded on the balance sheet upon initial recognition of the new machine? Is it the fair value of the machine received ($110) or the cost basis of the old machine ($100)? We assume that, per paragraph 6.70, the new machine would be recorded at $110, the old one would be written off for $100, and there would be a gain of $10 as the company received $110 worth of value by only "paying" $100. However Table 6.1 is not sufficiently clear on this point, and we believe the Framework should be clarified.

Paragraph 6.70 also should be clarified. It states, in part, "measuring the asset acquired, or the liability incurred, at historical cost may not faithfully represent income or expenses (for example, a loss arising from an overpayment or a gain arising from a bargain purchase)." We believe the language should be clarified as it suggests that a bargain purchase does not faithfully represent income or expense. We suggest the following edits (marked to show the proposed changes): "...measuring the asset acquired, or the liability incurred, at historical cost may not faithfully represent income or expenses (for example, a loss ~~arising from~~ <u>may be appropriate when there is</u> ~~from~~ an overpayment and a gain ~~arising from~~ <u>may be appropriate when there is</u> a bargain purchase)."

Paragraph 6.71 deals with non-exchanges, such as gifts or government grants, and suggests recognising current value in income. We agree with recognition at a current value (generally fair value) to provide accountability over assets. However, such grants may lack a commercial basis and would be impaired on a current value model unless the income is deferred and recognised over the period in which the asset is to be operated to discharge the conditions underlying the grant.

Internally-constructed assets

Paragraphs 6.72 ad 6.73 are not necessary. We believe the guidance on initial and subsequent measurement should apply broadly to all assets.

Question 10—More than one relevant measurement basis

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

We agree that more than one measurement basis may be relevant for the same assets; there may be no measurement basis that is always the best choice for some assets and liabilities, such as a pension obligation that is on the balance sheet at current value but the impact of the obligation in the income statement is based on its historical cost (paragraph 6.76). However, we recommend that the guidance in paragraph 6.76 be revised to state that relevant information also may be provided by the opposite circumstance – a historical cost measurement in the balance sheet and a current value measurement in the income statement.

We also agree that disclosure of the alternative measurement bases may provide useful information.

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?

We agree that the objective of general purpose financial reporting is to provide financial information about the reporting entity to aid investors' and creditors' decision-making. We further agree that investors and creditors are the "primary users" of general purpose financial reports, which are not primarily directed at other interested parties, such as regulators and other members of the public.

We agree with the guidance in the objective and scope of financial statements and with the use of presentation and disclosure as communication tools. Specifically, we agree that:

- Forward-looking information about likely or possible future transactions should only be included in the financial statements if it relates to assets, liabilities, or equity that existed at the end of or during the period, and other types of forward-looking information may be included outside the financial statements, for example, in management commentary.
- Subsequent events information should be included if necessary to meet the objective of the financial statements.
- Comparative information is relevant.
- Effective and efficient communication can be accomplished by using presentation and disclosure objectives and principles instead of mechanical rules.
- Cost constraints are important in deciding on presentation and disclosure matters. However, the Framework should be clear that the IASB alone should consider the cost of disclosure relative to the benefit of transparency; cost-benefit should not be considered by preparers. Rather, preparers should consider materiality.

Question 12—Description of the statement of profit or loss

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.

We support profit or loss as the primary performance indicator with other comprehensive income (OCI) used to reflect those changes in assets and liabilities that are not recognised in profit or loss. Due to the nature of certain items in comprehensive income, we do not see it emerging as the main performance indicator for most entities.

Question 13—Reporting items of income or expenses in other comprehensive income

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?

We agree with the presumption that ultimately, all income and expenses should be reported in profit or loss. However, we also agree that certain remeasurements that might give rise to income or expenses are more appropriately included in OCI.

Question 14—Recycling

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?

We believe that the importance that some investors place on profit or loss, or components thereof, leads to the conclusion that all items of income and expenses should be recycled when the reason for initial exclusion from net income no longer applies.

Determining when to recycle is complex in some circumstances. However, this is not a reason not to recycle. Practical solutions can be achieved at the standards level for recycling specific items when it is relevant to the performance of the entity, such as items with different measurement bases in the balance sheet and income statement. If the IASB determines that some items should be permanently excluded from profit or loss for practical reasons, such as cost-benefit, those circumstances should be identified and explained as exceptions to the Framework.

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?

Paragraph BCE.24 emphasises that the Framework is intended to aid in future standard setting, not to eliminate existing inconsistencies. The ED addresses how the Board will handle inconsistencies with new standards, but it only mentions certain inconsistencies with current standards. We suggest the IASB considers any inconsistencies raised through constituent feedback. While some are expected and may be justified, if there are too many, stakeholders may wonder if the Framework is not meaningful or useful.

Paragraphs BCE.7 through .11 note that IAS 32 and IFRIC 21 are the main areas of inconsistency between the Framework and current standards, and BCE.12 through .24 note that IAS 19, 37, and 38 are minor inconsistencies. We observe that there are other inconsistencies not addressed. These include guidance on:

- derecognition of both financial and nonfinancial assets and liabilities
- investment entities, for which consolidated financial statements are not required

We agree with the approach in BCE.21 that when the Framework is finalised, it will consider whether to develop proposals to amend IAS 1 and IAS 8 to reflect the revised Framework. We suggest that this includes the definition of materiality. The ED proposes to clarify that the assessment of materiality considers only the perspective of "primary users" of general purpose financial reporting. We agree that such change is consistent with the notion of primary users. However, it may be inconsistent with the definition of materiality in paragraph 7 of IAS 1, which refers only to "users," and we suggest that the Board considers in its broader analysis amending IAS 1 on this point.

Transition

We agree that retrospective application in accordance with IAS 8 is appropriate for transition of the amendments to other standards (IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32). We further agree that prospective application for the amendment to IFRS 3 is appropriate to avoid restating previous business combinations.

However, we question the transition guidance for entities that use the Framework to develop accounting policies. While we acknowledge the Board's concern about comparability of financial statements, we do not believe entities should be required to re-evaluate existing accounting policies within 18 months when the Board is not going to do a similar review of its existing standards. Further, we submit that even if preparers are required to conduct such a review of accounting policies based on the Framework (that is, when there is no standard on point), we believe retrospective application is onerous and prospective application would be a more cost-beneficial solution.

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Question 16—Business activities

Do you agree with the proposed approach to business activities? Why or why not?

The ED discusses generally how business activities affect unit of account, selection of measurement basis, and presentation and disclosure, including whether to include income/expense in profit or loss or OCI. It seems to downplay the impact of business activities and purposely does not use the term "business model." However, recent standards, like IFRS 9, are based on the concept of business model and use that term. We recommend that the Board be consistent in its terminology and meaning in the Framework and throughout standards to the extent possible.

Question 17—Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

We agree that the Framework contains sufficient and appropriate discussion of the objective of general purpose financial reporting to address the needs of long-term investors.

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.

In addition to our responses to the IASB's specific questions, we have the following observations.

Purpose

In addition to standard setting, paragraph IN1(b) indicates that the Framework can be used to help preparers discern an appropriate accounting policy when "no Standard applies" or when "a Standard allows a choice of accounting policy." We believe there is a difference between instances in which there is no guidance and instances in which there is a choice among multiple acceptable approaches.

We believe that there are very few circumstances in current IFRS when "no Standard applies" (that is, situations that are not addressed by existing standards, either explicitly or through analogy). For example, IAS 37 and IAS 38 address the accounting for a number of assets and liabilities that are not specifically identified in other standards, and, in our view, reflect the best current standards-level thinking in these areas. To avoid misapplication of the Framework, we recommend that the Board further explains the importance of analogizing to existing standards and consider clarifying that paragraph 11(b) of IAS 8 should be applied only in rare circumstances.

When there is a choice among multiple acceptable approaches, we believe preparers could use the Framework to provide information about what would be most decision-useful to their investors and creditors in developing accounting policies. Also, the Framework may be helpful in determining whether changing from an existing policy to a different one is preferable. However, the Framework should indicate that it cannot be used to develop another approach that is not contemplated in the standard or in any way override the standards-level guidance.

Statement of cash flows

There is no discussion in the Framework on the statement of cash flows. This seems unusual even if the Board has decided not to identify cash flows as an element or in the definition of the primary financial statements. Table 6.1 includes contributions from and distributions to holders of equity claims, which are also not elements, but does not include cash flows.

Capital maintenance

Certain aspects of the chapter on capital and capital maintenance do not seem consistent with the rest of the Framework or should be considered in other chapters. For example, paragraph 8.5 mentions measurement bases for physical capital and financial capital. That seems more appropriate in the measurement chapter.

Cash-flow-based measurement techniques (Appendix A)

Paragraph A6 states that when there is a range of cash flows, "the most relevant amount is usually one from the centre of the range (a central estimate)." This language seems to suggest that the median is more relevant than the most likely outcome. Presumably, that is not the Board's intention, given the discussion in paragraph A7 which states that different estimates provide different information. Perhaps it might be useful to refer to the best or most likely estimate, or alternatively say that the best estimate is not usually the highest or lowest estimate within the range. In fact, IFRS 13.63 states that when multiple valuation techniques are used resulting in a range of values, the fair value measurement is "the point within that range that is most representative of fair value in the circumstances."

Also, the reference to "the maximum amount that is more likely than not to occur" as a "statistical median" in paragraph A7(a) is confusing. It may suggest that the maximum amount should be estimated at 50% probability, but "more likely than not" is interpreted in IFRS as more than 50% likely.