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Mr Hans HOOGERVORST
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Exposure Draft ED/2015/3: Conceptual Framework for Financial Reporting

Dear Hans,

I am writing on behalf of the Autorité des normes comptables (ANC) to express our views on the above-mentioned Exposure Draft (hereafter ED) *Conceptual Framework for Financial Reporting*, issued on 28 May 2015.

This view results from ANC's due process, involving all interested stakeholders and taking into account particularly the outcomes of the outreach session performed in Paris mid-September and the discussions shared during our 5th Symposium on Accounting Research, which was entirely dedicated to the Conceptual Framework in relation with the underlying general principles and the EU criteria for endorsement of the standards. We take this opportunity to thank Philippe Danjou for his participation in both events.

To summarise ANC's views, we consider that your proposals of a Conceptual Framework still need further work to better explain and articulate proposed welcome concepts but also to address key subjects which are being dealt with as separate research project and are essential to the Conceptual Framework, such as on financial performance and on the distinction between liabilities and equity. We would expect that the former be addressed during this phase of the revision of a Conceptual Framework whilst the latter would probably require further changes to be incorporated at a later stage.

You will find attached an executive summary of ANC's position on the IASB's proposed Conceptual framework as well as, in the Appendix, our detailed comments to the questions raised in the Exposure Draft.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Patrick de Cambourg

Patrick de Cambourg

Executive Summary
Giving more focus to the Conceptual Framework

Purpose of the Conceptual Framework

As mentioned in its introduction, the purpose of the Conceptual Framework is to:

a. Assist the IASB to develop standards that are based on consistent concepts;
b. Assist preparers to develop consistent accounting policies when no standard applies to a particular transaction or event, or when a standard allows a choice of accounting policy; and
c. Assist all parties to understand and interpret the standards.

ANC fully subscribes to this purpose, which establishes the Conceptual Framework as the "anchor" for financial reporting based on IFRS even if it remains aspirational in nature.

Congruence of the Conceptual Framework with the principles underpinning the European Union's endorsement of IFRS

The Conceptual Framework is not formally endorsed by the European Union. However the EU's decision to adopt IFRS in 2002 was based on an understanding of the then Conceptual Framework and its underlying principles, which were present in the then extant standards (which were endorsed). The EU's IAS regulation organises a standard by standard endorsement mechanism on the basis of three criteria: true and fair view as developed in the Accounting Directive, European public good and qualitative characteristics of financial information (intelligibility, relevance, reliability and comparability). It is therefore clear that the compatibility of the principles embedded into the Conceptual Framework with the EU criteria for endorsement is key and that the Conceptual Framework is, and will be, the object of thorough scrutiny and consideration because of the role it plays in the IASB's standard setting process.

The proposals contained in the ED appear to have been drawn so as to take account of the IASB's recent thinking in its standard-setting decisions and therefore attempt to encompass all of its existing standards. Arguably, such a process has a certain logic: that of defining concepts starting from the principles included in the standards, and, when principles in a standard depart from the Framework, of looking at how the Framework could be modified to incorporate those new principles.

The approach adopted by the IASB has led the concepts included in the current proposals to gradually move away from the ones the IAS Regulation had initially considered, either by a change in meaning or by a change of concept emphasis. Some of these may generate tensions between the IASB and its European constituents in their analysis of the proposed standards. In addition, the process adopted by the IASB differs from the legal process effective in the EU, whereby standards are subordinated to the Directive and the Regulation, in other words the process is the other way round. Accordingly, it is only logical that the European Union would seek to preserve a high level of convergence between both Frameworks.

ANC knows that the IASB is fully aware of this state of fact. We welcome the constructive dialogue established by the IASB with other standard-setters within ASAF and we fully support a complete review of the Conceptual Framework. Our analysis of the proposed Exposure Draft was performed having in mind this objective of convergence even if ultimately endorsement will continue to take place on a standard by standard basis.
With this perspective, ANC welcomes the fact that the IASB has reconsidered most of the chapters of the Conceptual Framework, including Chapters 1 and 2 on the objective of general purpose financial reporting and on the qualitative characteristics of useful financial information, which were already reviewed in 2010.

Focusing and completing the Conceptual Framework
Bearing in mind the reference to the principles embedded in EU law, ANC welcomes and supports the introduction and discussion on the following fundamental aspects, but considers that most of them should be better articulated, justified and/or be given more prominence and/or a different meaning:

- Recognition that the **general objective** of the financial statements is not "to show the value of a reporting entity";
- Reintroduction of **stewardship**, which should be given more prominence and would warrant further explanations as to its implications;
- Reintroduction of the **substance over form** principle, which, as it is pervasive to financial reporting, would be better articulated if it were further described at the beginning of the ED;
- Reintroduction of **prudence**, which should also recognise the need for asymmetrical prudence;
- Assertion that financial statements are to be prepared according to the "**entity perspective**", for which, however, further explanation is, in our view, needed;
- Reference to the entity's **business activities** as a factor to consider in deciding on the relevant measurement basis, even though we consider that business activities should play a much more fundamental role in the financial statements without which the Conceptual Framework does not address **LT investment** needs satisfactory;
- Recognition of the **relevance of a mixed measurement model** and the description of the two main types of measurement bases, which require further guidance on which measurement basis is relevant to which situation and on the objectives assigned to **discounting**;
- Recognition that the **statement of profit and loss is the primary source of information** on the entity financial performance and other related assertions according to which when looking at an element, all aspects, including its representation in the statements of financial performance are equally important.

As previously mentioned, the proposals appear to cater for all the diversity in the existing standards by encompassing (nearly) all of them, as evidenced by the compliance assessment performed by the IASB. This obviously reduces the need for departure from the Conceptual Framework and therefore for the IASB to justify such departure. Given the diversity of existing principles across standards, the implications of such an approach are such that the concepts developed are so broad that they do not provide any sense of direction. We consider that, ultimately, the proposed Conceptual Framework will not be conducive to consistent standard-setting and interpretation of the principles, thus missing its stated purpose.

We note and welcome the fact that the proposals fill some existing gaps in the Conceptual Framework. However, some significant and essential gaps still remain. Without those the

Conceptual Framework will be incomplete. We consider therefore that, in addition to the suggestions we make regarding the items listed above, the proposals need to be completed on the following aspects:

- Inclusion of the entity's **management as a user**, which will enhance the concept of stewardship and create full coherence of the financial information;
- Reintroduction of the notion of **reliability** and its articulation with uncertainty;
- Providing better conceptual articulation of the notion of risks and rewards with respect to the notion of control;
- Reintroduction of asymmetrical **probability thresholds in the recognition criteria;**
- Providing conceptual basis for the **debt vs. equity distinction**;
- Providing a definition/characterisation of **performance** in relation with:
    - o the definition of capital (including the concept of capital maintenance);
    - o the entity's business activities which define the way the entity generates its cash flows and creates value;
    - o the cash-flow statement which is an integral part of the financial statements.

Finally, it is for the IASB to conduct a **proper impact assessment** of what the consequences of its proposals could be on existing standards and not for its constituents to have to second-guess such consequences. This would assist its constituents in understanding the implications of the proposals and how consistently the IASB could make standard setting decisions in the future, thus serving the purposes the IASB has itself set for this document.

Conclusion

To conclude, whilst the proposals in the ED go in the right direction, they currently would fail to serve the purposes ascribed to the Conceptual Framework. To achieve those purposes, significant work is yet to be performed by giving this document more focus and by making it complete. Such a work should encompass a full compatibility assessment with EU principles and other key jurisdictions' principles.

Appendix

Preliminary note: Throughout its comments, ANC uses the terminology of "business activities" in the meaning described in the answer to Question 16, to cover the notion of "economic activities", where appropriate, or that of "business model".

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?

Before commenting on the above specific questions related to Chapters 1 and 2, we would like to stress the importance for ANC of considering the **management** of the entity and its governance, when distinct, as it is more and more the case, **as users,** together with the primary users identified by the IASB in the ED.

Broadening the range of users of financial information

As mentioned in our response to the Discussion Paper, ANC considers that the subject matter of financial reporting and of the financial statements in particular is the entity as an economic actor which engages in activities with a multiplicity of stakeholders, who are all, at various degrees, interested in the entity and need information about it.

The Conceptual Framework recognises this but proposes to focus particularly on the needs of a specific set of 'primary users', setting aside management and governance on the grounds that they can rely also on internal reports.

We do not find this argument convincing. In fact, we do not see any purpose in opposing an entity's stakeholders against each other. In addition, given the emphasis in Chapter 7 given to presentation and disclosure as a communication tool, we find it rather counterintuitive that the party required to produce the information would have to do so without ownership of the language it is required to use because such language would not necessarily be adequate for internal management purposes in reflecting how the entity's business activities are conducted. In ANC's view, effective communication requires that the parties to the communication or exchange of information actually speak the same language. Thus, we consider that the most relevant financial statements are those which reflect convergence of the views of both the currently so-called primary users and the entity's management and governance.

In our view, the reason invoked by the IASB does not give credit to the significant efforts and costs incurred by preparers dedicated to developing ERP systems and governance processes which align internal with external reporting, and to building a common language within the reporting entity in order to ensure common understanding of all internal KPIs. Such developments lead to more robust closing processes and to more reliable financial statements. In addition, opposing the needs of management and/or governance and the ones of the so-called 'primary users' bears the risk of increasing the use of "non-GAAP" measures – a subject we know the IASB is keen to tackle in a separate project – because management and governance will not consider itself as the owner of IFRS numbers. We are not convinced that this is in the best interest of the primary users themselves as designated by the IASB in that it would undermine management and governance's stewardship responsibilities and fiduciary duties.

Finally, given that financial statements are to be prepared from the perspective of the entity (and subject to clarifications of that concept – see our answer to Question 3) and that, as previously mentioned, they should faithfully reflect the business activities of the reporting entity, we question whether the focus on the only needs of the primary users is at all relevant.

a) Management and governance's stewardship

ANC welcomes the explicit reintroduction of the notion of stewardship and its reinforced status in the context of financial reporting.

We consider that financial statements should provide the financial information that is helpful in assessing how an entity is managed, i.e. in holding management and governance accountable of the way the business is run. This is, in our view, essential to providing information on company's performance as a whole, as it enables the entity to demonstrate the implementation of its business activities and for management and governance and for the entity's other stakeholders to compare its financial results with those of similar companies.

This stewardship objective is therefore in our view the primary objective which needs to be satisfied for the benefit of the entity's stakeholders. As regards the primary users as defined in the ED (see our above comments on the notion of users), without the stewardship objective, these primary users would not be able to assess the quality of the management and governance and to make decisions about providing resources to the entity in the future.

Therefore, we do not see the provision of decision-useful information to be the objective served by the assessment of management's stewardship of the entity's resources. To the contrary, we consider stewardship to be the primary objective of financial reporting because it provides decision-useful information to a wide range of users. In other words, decision-usefulness is, in our view, an attribute of stewardship. It is also an attribute of good management systems, therefore creating continuity from management decision-making to stewardship and to decision-useful information for investors, creditors and third parties.

Coming back to the ED, we are comforted, in a sense, in our position by paragraphs 1.23 which encompasses within stewardship more than the strict scope of the financial statements: e.g. compliance with applicable laws, regulations and contractual provisions. However, we note that paragraphs 7.20 and 7.22 on the information provided by the statement of profit or loss are the only area of the ED, other than Chapter 1, where a reference is made to the assessment of management's stewardship. On the contrary, paragraph 1.6, with which we agree, states that "general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need". As a consequence, it is unclear what role the IASB ascribes to stewardship, ie whether it is limited to the statement of profit or loss or is to be assessed on a broader basis. Accordingly, clarification on the role of stewardship in the context of relevant financial reporting is, in our view, warranted.

Beyond this, we note that it would also be useful for translation purposes as in many languages the one word cannot be translated with just one word.

b) Prudence

ANC welcomes the decision to re-introduce prudence in the Conceptual Framework.

The depiction of neutrality as being "supported by the exercise of prudence" is somewhat odd even in the context of limiting prudence to caution in the exercise of measurement. ANC understands this definition of prudence as directed to preparers. We, however, regret that the IASB has not addressed the topic of prudence that ought to be exercised by itself in its standard-setting capacity.

As for EFRAG, ANC considers that prudence represents a degree of caution that generally recognises downside risks and strongly questions whether upside potential inherent in uncertain future events should be recognised. This, in our view, implies to acknowledge that prudence plays a larger role than that proposed by the IASB in the ED. We consider therefore that prudence plays a role in the recognition criteria for assets and liabilities and results most of the time in asymmetrical recognition criteria as per our general statement above. This is evidenced in the individual standards, up to the latest standards issued (IFRS 15 and IFRS 9). In addition, we note that, even in the proposed ED, there are some areas where asymmetry is informally recognised:

- paragraphs 4.25 and 4.26 on the definition of a liability,
- paragraph 4.41 on executory contracts.

Further, linking such asymmetrical recognition criteria with the entity's business activities would, in our view, help alleviate any concerns of bias that may be carried with the notion. In this, we fully agree with the fact that the exercise of prudence does not allow for the understatement of assets and income or the overstatement of liabilities and expenses.

As a conclusion, it would be more helpful to better articulate the concept of prudence separately with the reintroduction of the notion of asymmetry. This is consistent with our position regarding recognition criteria as expressed in our answer to Question 6.

c) Substance over form

ANC welcomes the re-introduction of the concept of "substance over form". We note that the ED refers to this concept only in the developments related to faithful representation and in the chapter related to the definition of assets and liabilities. We consider the application of this concept to be broader and that it should therefore be further discussed within Chapter 2. To this effect the depiction of the concept in paragraphs 4.53 to 4.56 could be usefully introduced together with paragraph 2.14. This regrouping would allow more consistent application and avoidance of possible misinterpretation.

We are also of the view that the last sentence in paragraph 2.14 could be strengthened by replacing "would not" by "cannot".

As regards the developments we refer to in paragraphs 4.53 to 4.56, we think that the term 'statute' in paragraph 4.54 could be clarified as, in our view, it is more a broad concept than a narrow concept. To avoid misinterpretations and translation difficulties, further clarification would be useful.

Coming back to paragraph 2.14, we wonder whether, in the underlined text introducing the notion of substance over form, the term "economic phenomena" ought to be replaced by that of "business activity" as it refers to legal form. We note in this respect that paragraphs 3.16 and 3.18(b) refer to faithfully representing an entity's economic activities (refer to our preliminary note at the beginning of this Appendix).

d) Measurement uncertainty

These new paragraphs were added under the relevance caption as a trade-off with other aspects (e.g. materiality and predictive/confirmatory value of information) in assessing whether the information is relevant.

ANC is not convinced by this positioning as measurement uncertainty bears an impact on (faithful representation) reliability. We note that even in the ED, in the chapter on measurement in paragraphs 6.56 and 6.57, measurement uncertainty is developed under both relevance and faithful representation.

In addition, uncertainty, even when considered with respect to reliability, is not limited to measurement uncertainty: paragraph 5.15 refers to existence uncertainty whilst paragraph 6.56 refers to outcome uncertainty. Therefore, it would have been useful had the IASB provided a general discussion in the ED on uncertainty (for definition, recognition and measurement purposes), instead of limiting uncertainty to measurement aspects.

As a consequence, regrouping these paragraphs under reliability (see hereafter) after having changed the title to "Uncertainty" would, in our view, make sense and enhance understandability.

e) Relevance and faithful representation

ANC considers the distinction between the concepts of relevance and faithful representation to be somewhat artificial.

BC 2.22, in stating "thus, financial information is useful, as well as relevant, if it faithfully represents what it purports to represent", seems to imply that to be relevant, information must be representationally faithful. We agree with this. Therefore, we consider that faithful representation cannot be set alongside relevance as a fundamental characteristic. In this respect, we consider that the trade-off in the pre-2010 Framework between relevance and **reliability** is more appropriate.

In BC 2.25, the IASB points out to the common meanings of reliability and faithful representation to justify substituting the former by the latter (in addition to arguments in BC 2.24). We are not convinced by these arguments. All the aspects described under faithful representation are, with the exception of substance over form, mainly described in terms of process aspects (completeness, neutrality, free from error, prudence).

Moreover, as previously mentioned, in its paragraphs on measurement uncertainty placed under relevance (paragraphs 2.12 and 2.13), the discussion is based on analysing a trade-off between relevance and measurement uncertainty. We are therefore of the view that measurement uncertainty would better be assigned to describing reliability as a fundamental characteristic.

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?

Description of a reporting entity

ANC agrees with the proposed description of a reporting entity in paragraphs 3.11 and 3.12. Although we understand that according to the footnote 6 of paragraph 1.2, the term entity refers to the reporting entity, we regret that the notion of an entity is not defined. In our view, it would be helpful to provide clarification as to what an entity is: is it representative of one or more economic activities as paragraph 3.18(b) could be read to indicate?

Boundary of a reporting entity

The reference to the notion of control, be it direct or indirect, seems to imply that the boundaries of a group are those of a parent and its subsidiaries, as noted in paragraph 3.14. We note that, in practice, the notion of control leads to a broader scope of what a reporting entity is by encompassing entities that are not subsidiaries (in the legal sense) but that are nonetheless controlled, such as some special purpose vehicles, entities under common control and entities that are combined for the purposes of establishing combined financial statements (see our comments further below). We therefore encourage the IASB to use language that does not seem to exclude such entities.

In addition, the reference to control would appear to exclude associates and jointly-controlled entities from the boundaries of the reporting entity. If this is the case, what consequences does this bear on the equity-accounting method in terms of the long-held and unconcluded debate as to whether this method is a consolidation or a measurement method (see our comment also in our answer to Questions 8 and 9)?

Notions of direct and indirect control

The notion of control as described in paragraphs 3.15, 3.19, 3.20 and 3.21 dealing with the notions of direct control and indirect control is confusing, primarily because these notions are not used in practice. Direct control is used to describe the boundary for which unconsolidated accounts are produced and "direct and indirect" control is used in the context of consolidated accounts.

We note, in particular, the following two sentences:

- paragraph 3.20 (within direct control): "The returns to investors, lenders and other creditors of a parent depend on the future net cash inflows to the parent entity";
- paragraph 3.22 (within both direct and indirect control): "the returns to investors, lenders and other creditors of a parent depend *partly* on the future net cash flows to the parent *from the subsidiary*" (*emphasis added*).

We find these sentences confusing in as much as the second sentence is also true for unconsolidated financial statements.

Furthermore, the term "unconsolidated" adds confusion as the term "separate" is more often used in the standards in order to cover the same concept (as per IAS 27 and in the introduction of IFRS 10).

As a consequence, we propose to remove the notions of direct and indirect controls from the draft conceptual framework and replace them by two discussions under the following headings: "separate financial statements" and "consolidated financial statements". Definitions of these types of financial statements exist already in IAS 27 and, for the sake of clarity and consistency, similar definitions could be included in the conceptual framework:

- Separate financial statements are those presented by a parent (i.e. an investor with control of other entities) to represent the business activities it undertakes directly.
- Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expense and cash flows of the parent and the entities it controls are presented as those of a single economic entity to reflect the business activities of the group.

As a consequence, we propose that:

- paragraphs 3.14, 3.19-3.22 be rewritten after integrating our above comments;
- paragraphs 3.23 and 3.24 be deleted as we are unconvinced that they have their place in the conceptual framework, paragraph 3.23 because of the differences in perspectives and paragraph 3.24 because the reporting entity considered previously is either the parent on its own or the group, and not the subsidiary.

Entity perspective

ANC agrees that financial statements are prepared from the perspective of the entity as a whole as stated in paragraph 3.9. We welcome this statement as, in our view, it implies the reporting of the economic activities of the entity in the way the entity carries them out. We refer to our comments regarding the users of financial statements and stewardship in our answer to Question 1.

It would be useful for its constituents that the Board indicates, as a minimum in the Basis for Conclusions, how the Board articulates this perspective in terms of its consequences on the various elements of financial statements (for example: distinction between equity and liability) and other aspects dealt with in the Conceptual Framework.

Going concern principle

The proposed Framework carries forward the going concern principle which is an essential assumption for establishing financial statements in paragraph 3.10. We agree with this. However, this is another notion which is undefined and which has in recent standard setting/interpretations activities given rise to discussions as to the extent of its role. It would therefore be useful to understand better from the Board's perspective what role it should play.

In addition, we wonder whether "will continue in operation for the foreseeable future" is actually part of the description of going concern or whether, as seems to be implied in paragraph 3.10 with the use of "and", it comes in addition to the notion of going concern.

Similarly to our above-comment regarding paragraph 3.25, we propose to remove the reference to what would need to be disclosed in the notes to the financial statements when financial statements are established on a basis different from going concern as it is a standard-level requirement present in IAS 1, paragraph 25.

Combined financial statements

ANC welcomes the inclusion of the notion of combined financial statements in paragraph 3.17. However, as stated, the explanation appears to be too broad, since it could encompass two or more entities which have no link with each other. This is not what we understand practice to be as combined financial statements are drawn up on a recurring basis when some form of relationship or control exists, which is not based on a parent/subsidiary relationship. However, we acknowledge that the notion of combined financial statements should not encompass pro-forma financial statements prepared for the sale or IPO of some activities (special purpose financial statements).

We therefore would encourage the Board to provide some additional characterisation for combining entities.

Our review of our own local accounting requirements but also of other francophone accounting requirements shows that the following items could help such characterisation:

- entities with a common management (up to a common majority shareholder);
- entities with common services which are sufficiently pervasive to generate common commercial, technical or financial policies;
- entities with major and stable contractual relationships (e.g. reinsurance contracts for insurance mutuals under French regulation).

In essence, we think the possibility to combine entities should be based on cohesiveness factors which provide the « ensemble/group » based on the related entities with its unicity, by conferring to it an economic identity beyond the specificities attached to each of its components. These characteristics may accordingly be indicative of some form of control.

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?*
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?*

ANC herewith answers both questions 3 and 4 as they are interrelated.

ANC understands that these new definitions, in principle, together with the recognition criteria, which is now decoupled from the definition, do not induce fundamental changes to the elements that are reported in the financial statements (even though the IASB recognises that there may be some changes, especially as regards liabilities).

In this respect, we regret once again the lack of impact analysis performed by the Board as to the potential effects of these changes on existing standards. Having checked that the current set of standards is globally in compliance with the proposals in the ED is not the effect analysis ANC has in mind. It is therefore very difficult to be conclusive on whether we agree or not to these new definitions.

Bearing this in mind, we nonetheless formulate some comments hereafter.

We note that Chapter 4 introduces some useful discussions on some concepts. We however consider that those concepts which relate to more than one element would be better explained on a broader level. In particular, this is the case for:

- the notion of economic resource, which is drawn on for both the definition of an asset and a liability but is only detailed under the definition of an asset;
- the notion of past events, which is equally referred to in both the definition of an asset and a liability but is only detailed under the definition of a liability;
- the notion of control, which not only pertains to controlling an asset but also to the control of an entity (chapter 3);
- the notion of substance over form, which applies to individual rights and obligations that may need to be looked at at a broader level, for instance in the context of control over an entity;
- the unit of account, which applies to elements, recognition and derecognition.

(a) Definition of an asset and of an economic resource

We welcome the clarifications provided by the descriptions about rights and potential to produce economic benefits, **except for** the very low threshold set in paragraph 4.13: at least one circumstance of producing future economic benefits suffices, alongside with existence to have an economic resource. This very high level of uncertainty is not very helpful to understand what it is financial statements are supposed to portray. We consider that the replacement of the notion of 'expected' by the notion of "having the potential to" bears more far-reaching consequences than the Board is willing to admit in BC 4.17. Such new definitions may lead to identifying more assets and liabilities than today. This, combined with the recognition criteria, could lead to recognising more "uncertain" assets and liabilities (see paragraph 5.18) with the corollary increase in related disclosures. We would have preferred it had the Board performed some research to evidence what does not function well in the current outcome of its standards rather than just seek to reflect its recent practice of standard setting. This would have helped understand the consequences of the Board's proposals. In addition, we consider that our concerns are alleviated neither by:

- Paragraph 4.8(c) which seems to be a "catch all assets" provision; nor by
- The recognition chapter (see our answer to question 6).

In paragraph 4.12, whilst we don't disagree with the statement on the set of rights arising from legal ownership of a physical object as being accounted as a single item, we consider that the subsequent discussion ought to have been articulated using the concepts of substance over form and unit of account, which would have as a consequence that the information provided is more concise, clear and understandable because more relevant.

We regret that the ED does not articulate the notion of risks and rewards versus the notion of control (as defined in paragraph 4.18) and that the terminology "risks and rewards" is not explicitly mentioned in the ED. This would be helpful as references to risks and rewards are made in several standards (including IFRS 9 and IFRS 15). We do not think that paragraph 4.22 is sufficiently clear as regards the articulation of both concepts as it merely repeats the positioning of risks and rewards only as an indicator of control, as per the standards.

(b) Definition of a liability

ANC considers that the Framework resulting from the ED is incomplete as the distinction between liabilities and equity is still under review and that it is, at this stage, difficult to anticipate what consequences on the definition of a liability the outcome of this research project may have. Having said that, ANC has the following comments on the proposals set in the ED:

The discussion linking a liability of the entity to an asset to another party in paragraphs 4.25 and 4.26 is welcome. We understand that some constituents may have concerns when reading paragraph 4.25 in isolation and would recommend to regroup these two paragraphs into one for clarification purposes. We also consider that, in order to be faithful to the existing set of standards, and in view of our position as regards prudence and asymmetry in recognition criteria, the Board should recognise in paragraph 4.26 that different recognition criteria for assets and liabilities are more than just 'sometimes' (they are rather "more often than not") an outcome of consideration of the fundamental characteristics of relevance and reliability.

We refer to the position we express under the definition of an asset regarding the replacement of 'expected' by 'have the potential to' in the definition of an economic resource.

As regards the notion of present obligation, the ANC considers that it would be useful to bring into the text of the Conceptual Framework the discussion on economic compulsion included in BC 4.73 – 4.75 in the discussion regarding "no practical ability to avoid the transfer" and particularly the two bullet points addressed in BC 4.75:

- Economic compulsion may be a factor that reduces the entity's practical ability to avoid a future transfer –so it would be considered in assessing whether that criterion is met; but;
- Economic compulsion on its own cannot create a present obligation –there is also the obligation to have arisen from a past event.

We regret that there is no discussion around the notion of valid expectation of transfer of economic resources from the other party that an obligation creates.

Regarding paragraph 4.31 (b), we consider that the Board should replace "in other words" by "for example". The proposed wording could, in our view, prevent the recognition of restructuring provisions because the link between the restructuring and having received the economic benefits or conducted any activities is difficult to establish. We do note in this respect that the IASB staff seems to think otherwise in its research work on IAS 37 which considers the following in the July 2015 Agenda Paper 14C: "The past events criterion is satisfied over time, as the employees provide the service that increases the amount of termination benefits to which they would be entitled if their employment were terminated. The receipt of past employee service establishes the extent of the entity's obligation". We would therefore welcome clearer wording of paragraph 4.31 (b).

We also note that, in recent discussions of the IFRS IC (in November 2015) on determining whether variable payments are a liability or not, consideration of the proposals in the ED have apparently not been helpful enough to resolve this long-standing issue.

Finally, without necessarily disputing the outcome of the related standards on these topics, we consider that it would be useful for the IASB to articulate how the following items fit in the definition of an asset or of a liability:

- Deferred tax assets arising from deductible temporary differences;
- Deferred tax liabilities; and
- The contractual service margin (CSM) in the IASB's current project on insurance contracts.

(c) Definition of equity

Equity is defined through paragraphs 4.43 to 4.47 by difference as the "residual interest in the assets of the entity after deducting all its liabilities". Without disagreeing with such statement, which is 'mathematically' correct, ANC regrets that this draft Conceptual Framework does not take the opportunity both to define equity positively and to clarify the distinction between equity and liability. We note that this question has been postponed in a specific project, on a longer term timeframe.

We also regret that these paragraphs do not refer to the notion of capital maintenance to provide some clarity regarding the concepts of equity, net assets and capital, which are mentioned in paragraph 8.1. Defining capital positively would also result in a positive definition of the profit or loss, which is currently missing.

(d) and (e) Definitions of income and expenses

ANC welcomes the statement that income and expenses are just as important as assets and liabilities (paragraph 4.52). even though they are expressed in terms of changes in assets and liabilities. However, in our view, this way of defining income and expenses sanctions the balance sheet approach.

We would have preferred positive definitions of income and expenses referring to the activities carried out by the entity in a more obvious manner than paragraph 4.51 does, for instance by referring to and expanding on paragraph 4.9. This paragraph would, in our view, need to come in before paragraph 4.48, especially as it says "including changes in the carrying amount of assets and liabilities" when paragraphs 4.48 and 4.49 "income (expenses) *are* increases (decreases) in assets or decreases (increases) in liabilities..." (*emphasis added*), which appears contradictory.

In addition, paragraph 4.49 does not seem to easily apply to IFRS 2 expenses in the case of equity-settled share-based transactions as these do not result in decreases in equity.

We regret that the discussion in the previous Framework on revenue and gains and losses has been deleted on the basis that it was now unnecessary (BC 4.105).

In addition, we disagree with paragraph 4.52 which indicates that "income and expenses are *the* elements of an entity's financial performance" (*emphasis added*). In our view, the previous version of the Framework correctly expressed that profit is frequently used as a measure of performance, thus implying that it is one aspect of performance, albeit the primary one as confirmed in paragraph 7.21 (with which we agree). Other aspects included in the balance sheet or in the statement of cash flows for instance, but also in the notes, help assess financial performance.

We therefore disagree with including the term "financial performance" in table 4.4 without any prior definition. In addition, this statement contradicts the various headings related to financial performance in Chapter 1 and does not fit well with paragraphs 8.7 and 8.8.

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.

Executory contracts

We welcome the introduction of some discussion on executory contracts.

The discussion in paragraph 4.41 could be enhanced by explaining further the references to chapter 5 for recognition and chapter 6 for measurement when discussing the recognition of an asset or of a liability in the context of an executory contract as it is not obvious what the IASB is referring to.

Substance of reporting contractual rights and obligations

We refer to our comments regarding the concept of substance over form in our answer to question 1 c).

Unit of account

Paragraphs 4.57 to 4.63 related to unit of account are very factual and descriptive. However, they do not provide any direction on how to put them in use in practice.

Moreover, we would like to draw the Board's attention to a distinction that we make regarding the notion of "portfolio". This notion covers two different issues:

- One which is solely of measurement, ie grouping items together simply as a matter of calculation because the overall outcome provides more relevant information than if the calculation had been performed on an individual basis. For example, this is the case for the estimation of warranty provisions and of bank loan prepayments in the banking sector;
- The other which is to group similar items for recognition as well as measurement purposes (ease of calculation and in accordance with how these items are effectively managed) in the financial statements, such as insurance contracts.

Because of these two aspects, and as previously expressed, we consider that the unit of account is a notion which is more pervasive than simply recognition aspects and that it therefore deserves to be articulated on a broader basis.

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?

ANC welcomes the statement in paragraph 5.7 that the purpose of financial statements is not to show the value of the entity and that therefore not all assets and liabilities are recognised. In particular, we consider that a probability threshold should remain as a recognition criterion and that, consistent with our position expressed regarding asymmetric prudence in our answer to question 1, the level of such threshold should be higher for assets than for liabilities.

We therefore disagree with paragraph 5.13 b) which states that low probability of existence *could* be an indication of non-relevance in both the cases of assets and liabilities: we would actually be inclined to state that low probability of existence *would* be an indication of non-relevance (*emphasis added*).

As regards the developments on low probability of a flow of economic benefits, we consider paragraphs 5.17 to 5.19 to be confusing:

- The use of "can" in paragraph 5.17 is in apparent contradiction with paragraph 4.13: we propose to delete it;
- We are wondering what the underlying example in paragraph 5.18 is;
- Paragraph 5.19 refers to users' expectations: it is not clear to us how preparers may assess the need of the users (see our preliminary remarks in our answer to question 1).

Consistent with our position expressed in our answer to question 1 (e), we consider that the aspects discussed in paragraphs 5.22 – 5.23 under faithful representation do not fit well within discussion on recognition as these aspects would be better discussed from a broader angle, especially that of related assets and liabilities.

Overall, we regret that this chapter lacks sufficiently robust concepts for the IASB's constituents to understand the IASB's rationale and intentions, especially as regards the notion of business activities and of probability thresholds which in the existing standards are set at different levels. This concerns us all the more since we understand that it is in the area of recognition that preparers most often refer to the Framework.

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?

ANC welcomes the introduction of a discussion on derecognition in the Conceptual Framework.

However, we consider that this discussion should better articulate the distinction between control and risk and rewards (see our answer to question 3 a)). Moreover, since this term is used in the standards, including the last issued IFRS 15, we consider that the term should be explicitly mentioned in the Framework.

The ED seems to want to address derecognition with one model when, in practice in the standards, two models exist. This results in the unhelpful indication in the Conceptual Framework that the two aims of derecognition may be antagonistic as in paragraph 5.30 in some cases. To avoid that, the Board may consider acknowledging explicitly that there are different models and specify the circumstances in which each of the models is to be applied, or to attempt to solve the difficulty by making reference to the notions of unit of account and of substance over form.

In addition, we wonder whether paragraph 5.32 is more of the level of a standard than that of the Conceptual Framework, as it details accounting consequences. In this respect, it probably could be deleted.

Regarding paragraphs 5.33 to 5.36 on modification of contracts, we are not convinced that they bring much to the Conceptual Framework. In this respect, maybe a general reference to unit of account and substance over form could be more useful, as is indicated in BC 5.59. We are in addition concerned that they may not cover all cases, for example on renegotiation of loans, and that the notion of 'distinct' is not defined (having in mind the discussions regarding this notion regarding IFRS 15).

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) *(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?*

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?

ANC herewith answers both questions 8 and 9. Our position is globally in line with EFRAG's position as expressed in its consultation document dated July 2015, in that we broadly agree with the categorisation proposed and with the description of the information provided by each measurement bases.

Consistent with EFRAG, ANC considers that the chapter is a factual description of the measurement bases and of some of the factors to take into account to determine which measurement base to apply. However, it does not provide any guidance as to the context, the objective and therefore does not, in practice, aid to determine which measurement basis is to apply in various circumstances thus leaving all leeway to the IASB to make that decision, including the customisation of a measurement basis. In this regard, the description of the informational content of each measurement basis, when given, would be better understandable if it were:

- Not discussed separately for each measurement basis with sometimes reference to the others but together (we note that there is no discussion on the merits/disadvantages of the value in use/fulfilment value methods compared to fair value);
- Articulated within the discussion of relevance (e.g aspects such as predictive and confirmatory information) and faithful representation (reliability) (measurement uncertainty, completeness, etc.) and cost constraint (complexity and costs);
- Consistent with our position expressed in our answer to questions 12-14 regarding the objectives of the summary/primary financial statements, if it were articulated in consideration of those objectives.

In this respect, paragraphs 6.64 to 6.73 seem to be such an attempt by illustrating specific cases under the objective of discussing "additional factors to consider solely at initial recognition" (paragraph 6.64). Unfortunately, they fall short of being helpful for the following reasons:

- the "additional factors" considered are not very easily identifiable from the text;
- these paragraphs are phrased using terminology such as "would normally be appropriate", "may not faithfully represent", "would be unlikely to provide a faithful representation" without any explanation as to why these assertions are made;
- some paragraphs raise questions: for instance, in paragraphs 6.70-71, it is unclear whether there is any cash transfer involved and it is not clear in paragraph 6.73 what the context of the situation is (it seems to refer to a situation which is not encountered in any IFRS);
- these paragraphs appear to be of the level of standards.

We consider that such illustrations, if included in the Conceptual Framework, would better be discussed within the general articulation we propose above, by adding to the factors already discussed, or included in the Basis for Conclusions.

We note in addition that some paragraphs from n° 6.58 to 6.109 of the 2013 Discussion Paper will be more helpful because they are better articulated on these areas.

We regret that the IASB has not provided a discussion on the following topics which are regularly debated and inconsistently applied in practice and which there is no conceptual basis:

- own credit risk;
- risk margin (not taken into account in IAS 37 but will be in the upcoming standard on insurance contracts); and
- discount rate (different requirements in different standards as noted in a draft research paper presented at the September 2015 IASB meeting (Agenda Paper 15B): "IFRS

written over the years have required different factors to be reflected in the present value measurement in different Standards, which in turn means different discount rates").

Current cost

Paragraph 6.18 classifies current costs together with historical costs as both are considered to be entry values. We are not convinced with such classification of current cost. If the Board's intention was to classify entry values together, wouldn't this mean that it considers all other values (and here current values specifically) to be exit values? In our view, such an assumption may be a stretch especially regarding value in use. If the Conceptual Framework is to mention the concepts of entry and exit values, we consider that the IASB ought to provide a definition for them.

In addition, the link with capital maintenance in chapter 8 is confusing as this concept is not introduced earlier in the conceptual framework nor really clearly articulated.

Finally, we do not understand how current cost may be more useful in predicting future margins as claimed in paragraph 6.18 (a).

We therefore think that these issues ought to be clarified in the Conceptual Framework.

Topics in need of clarification:

Beyond the above, we consider the following to be confusing or unclear and therefore in need of some clarification:

- Paragraph 6.16 seems to paraphrase paragraph 6.11: we propose that both paragraphs be merged;
- As mentioned previously, the reference to the "physical capital maintenance concept" in paragraph 6.18 b) referring to chapter 8 as "may be necessary" without further explanation is unhelpful;
- Paragraph 6.35 indicates that 'it may sometimes be appropriate to [...]" without indicating when that would be the case and when that would not be the case;
- In paragraph 6.54(a), how the asset or liability contributes to future cash flows is described as depending *in part* on the nature of the entity's business activities is unhelpful in terms of understanding how much weight will, in practice, be given to it. We consider to the contrary the nature of the entity's business activities to be ***essential*** in the measurement of all assets and liabilities, as per our answer to questions 12-14 and 16. We are convinced, for instance, that accounting for a financial instrument which fails the SPPI test at fair value does not provide any information regarding future cash flows;
- In paragraph 6.55, it is not clear to us in what cases a different measurement basis may provide more relevant information because the level of measurement uncertainty is so high in the first (more relevant?) measurement base considered: is the Board referring to historical cost being such a candidate when the level of measurement uncertainty for a current value or even a fair value is too high? At a minimum, some indication would be welcome in the basis for conclusions. In addition, in view of our position regarding measurement uncertainty as described in our answer to question 1, we consider that the discussion contained in this paragraph would be better situated with paragraphs 6.57 and 6.58 under faithful representation;

- Paragraph 6.56 deals with "measurement uncertainty" and "outcome uncertainty". The distinction between both aspects of uncertainty and their potential interaction is not articulated in a sufficiently clear manner. We note that in practice, both aspects may be comingled in jointly assessing recognition and measurement aspects of an element. If the IASB's intent is for constituents to understand how to separate those aspects for the analysis, clearer articulation of the analysis is needed. In particular, at the end of the first sentence the IASB should explain why "it is uncertain how much cash the asset will ultimately produce": because the fair value is determined at the reporting date and it is uncertain at what date the asset will be sold and therefore at what fair value that may be. In addition, the second part of the paragraph relating to outcome uncertainty contributing to measurement uncertainty could be illustrated with a simpler and more straightforward example;
- We are not certain that this chapter captures all possible measurement bases. In particular, we note that there is no discussion regarding the nature of the equity method (see our comments in our answer to question 2).

Topics to be deleted from the text of the Conceptual Framework

- We question whether the objective of Table 6.1 as described in paragraph 6.47 is appropriate. Indeed we have had difficulty in understanding it: we are not sure that all items described as information in the statements of financial performance are readily legible from those statements. If the objective is only to present and summarise the consequences of the changes in items that form part of the calculations respectively for historical cost (paragraphs 6.7 and 6.8), for fair value (paragraphs 6.23 and 6.24) and value in use and fulfilment value (paragraphs 6.34 to 6.38), that ought to be better explained and the table should be included as an Appendix; otherwise, we propose to remove this table from the text itself.
- Appendix A on measurement techniques: we consider that the content of this Appendix is not of the level of the Conceptual Framework and should be deleted.

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?

ANC agrees with paragraphs 6.74 (more than one measurement basis may be needed) and 6.75 (in most cases, one measurement basis is the most relevant for both the statement of financial position and the statement of financial performance).

However, the outcome of a dual measurement basis described in paragraph 6.76 merely reproduces the cases that exist today without clearly articulating what consideration has prevailed in deciding why one measurement basis was deemed more relevant for the statement of financial position and the other for the statement of profit or loss, nor why it was not possible to achieve relevant information with one measurement basis only. A discussion around the main factors and criteria to be analysed would be more than welcome. In this respect, we refer to the beginning our answer to question 9 on articulating measurement objectives with objectives of the summary/primary financial statements as well as to our answer to questions 11 to 14 regarding the articulation between profit or loss and OCI.

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?*
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.*
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?*
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?*

ANC broadly agrees with the proposals of chapter 7 included in the exposure draft on objectives and scope of financial statements and on presentation and disclosure as communication tools.

As regards communication, we refer to our preliminary comments at the beginning of our answer to question 1. Those considerations are taken into account in our comments hereafter.

We regret that the objectives and scope of financial statements do not mention the statement of cash flows in paragraph 7.2(b).

Finally, the difference between the terms "presentation" (which we understand applies to primary financial statement content) and "disclosure" (which we understand applies to the notes to the financial statements) is not always as clear-cut as the IASB may have wanted it to be due to the language used. In particular, in paragraph 7.8, an explicit reference to the notes would be useful in the following sentence "They [Financial statements] also disclose additional information about those recognised elements and other information that is useful to users". To avoid any misunderstanding, we recommend that the IASB reviews any areas where presentation and disclosure are contrasted and applies consistent terminology.

Ascribing objectives to the individual "primary" financial statements

We understand from BC 7.5 that the IASB considers that the definitions and separate objectives for the individual statements within the financial statements or the notes are best considered in the performance reporting project ant the Disclosure initiative. As noted in our answer to questions 8 and 9, we regret that the IASB has not taken the opportunity of this overall review of the Conceptual Framework to put the summary/primary financial statements in perspective of each other and to define their respective objectives. In this respect, we consider that the performance reporting project should focus only on *presentation within* profit or loss whilst the Conceptual Framework should remain at the level of defining performance and clarifying the distinction between profit or loss and other comprehensive income in addition to defining its objective and that of the statement of financial position, amongst other summary/primary financial statements (*emphasis added*, see our comments below on presentation versus recognition). As regards financial performance, drawing on and expanding paragraphs 1.17 to 1.21 may be helpful. More emphasis on financial performance should be accordingly integrated in the Conceptual Framework.

Purpose of profit or loss

We welcome and fully agree with § 7.21 stating that the income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period.

This means, and we concur with this, that although being the primary source of information about an entity's financial performance for the period, the profit or loss cannot capture all facets of an entity's financial performance for the period (see § 1.17 to § 1.20). This is reflective of the various needs or objectives that various types of users have to assess the financial performance of an entity (see § 1.8).

In our view, this makes defining the objective of the summary/primary financial statements and more specifically that of the profit or loss all the more necessary.

As a starting point, we broadly agree with the proposed conceptual framework's articulation of the purpose of profit or loss in § 7.20 as to:

- Depict the return that an entity has made on its economic resources during the period; and
- Provide information that is relevant and faithful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources.

We however consider that, as stated, the purpose is insufficiently characterised, especially in terms of:

- what the notion of return on economic resources means; and
- on the elements that are relevant to be included in the profit or loss.

Consistent with our positions on stewardship (see our answer to question 1) and on business model (see our answer to question 16), we would formulate the purpose of profit or loss as follows:

"The purpose of the profit or loss is to depict the return that an entity has made on its economic resources in reflecting the business activities pursued by the entity and management's stewardship of the entity's resources during the period."

The purpose of the profit or loss, as we have defined it, is to be read having regard to our comments and position as regards the following aspects of financial reporting more specifically:

- stewardship (question 1);
- prudence (question 1);
- reliability (question 1);
- probability in terms of recognition aspects (question 6) in respect of the entity's business activities (question 16);
- related assets and liabilities (agreement with paragraphs 5.23 and 6.58) to avoid accounting mismatches.

Proposed approach to recognition in profit or loss or in OCI

Subject to being more specific regarding what "reflecting" the business activity means (see below) to characterise what is relevant to include in profit or loss, we are reasonably comfortable with:

- The presumption that all income or expenses will be included in the statement of profit or loss;
- Rebutting that presumption on the grounds of relevance to include some items in other comprehensive income, provided the notion of relevance of the profit or loss be characterised (without necessarily considering there is a need to constrain that presumption as in paragraphs 7.23 (a) and (b) and in paragraph 7.24 (a) – we further note that the wording of these constraints are difficult to understand as it seems aimed at still being able to fit all existing OCI items within OCI in the future);
- The presumption that all items included in OCI will be reclassified into the statement of profit or loss in some future period and that the reclassification occurs when it will enhance the relevance of the information included in the statement of profit or loss for that future period, provided the notion of relevance of the profit or loss be characterised.

We understand that the approach proposed by the IASB implicitly differentiates profit or loss and OCI as having different objectives and as being different statements (as per paragraphs 3.6 and 7.2(a) for example). We definitely agree with this. This, in our view, implies that whether and where between those two statements items are accounted for are recognition and not merely presentation issues. We therefore would recommend that the IASB uses corresponding wording instead of using the following terms of "(re)classification" (paragraphs 7.19 and 7.27) and "inclusion" (paragraphs 7.23 - 7.26).

Reflecting the business activity

In our previous work on the business model[1], we identified the following attributes of a business model that differentiate it from other business models to justify different accounting. ANC considers that it could be helpful to recognise this work in the proposed Conceptual Framework. These attributes may include:

a) **The length of the activity cycle.** This could influence the way and the timing at which inputs are used and the pace cash is consumed and recovered through outputs.
b) **How inputs are used**. This relates to how or if inputs of a business activity are transformed in order to generate an output. For example, are inputs used in a production process or sold without any change in their nature.
c) **How outputs are used to generate cash**. This deals with whether outputs are sold to generate immediate cash-flows or whether those cash-flows are recovered over time such as through rents.
d) **The types of risks related to the activity**. The duration of the cycle or the way access to production tools is obtained may influence both the type and intensity of risk the entity has exposure to.
e) **The degree of certainty in the generation of cash flows.** Based on the attributes mentioned above the degree of certainty of cash-flows varies between business models.

[1] Research Paper 'The role of the business model in financial statements', December 2013, EFRAG, FRC & ANC

f) **The degree of capital intensity**. The level of capital investment may impact the time needed to recover the investment or the activity cycle. This may also expose the entity to additional risk for a longer period.

We consider that all the above attributes relating to the generation of cash-flows to be relevant in terms of characterising what elements are relevant for inclusion in profit or loss, in conjunction with the other aspects we have taken positions on and which we mention above under the heading "purpose of profit or loss".

Consequences of considering the entity's business activities in distinguishing between profit or loss and OCI

We acknowledge that such an approach based on business activities may have the following consequences, for instance due to the realisation principle being applied in the context of the business activities, and possibly amongst other activities as described in EFRAG's Bulletin on profit or loss versus OCI, as regards current OCI items:

- Beyond reconsidering whether the circumstances in which the revaluation method is made available are in line with the entity's business activities, reconsidering whether the revaluation surplus related to intangible or property, plant and equipment ought to be reclassified in P&L when the asset is sold by the entity;
- It may be relevant to reclassify to P&L part or all actuarial changes recorded in OCI in accordance with IAS 19;
- The changes in fair value for equity instruments classified as FVOCI in accordance with IFRS 9 ought to be reclassified in P&L when the financial asset is sold by the entity;
- For financial liabilities designated at fair value through profit or loss, the changes in own credit risk ought to be reclassified in P&L when the financial asset is transferred by the entity prior to maturity.

Therefore, recycling would be considered to reflect the following circumstances:

- When the change in value is realised;
- When a change in business model makes the realisation of the value recognised in OCI probable;
- When the reason for recognition in OCI is no longer met (e.g. in the case of cash flow hedges).

Accordingly, we think it would be helpful for the IASB to articulate the circumstances in which recycling is considered to be relevant.

We also acknowledge that such an approach could have some impacts on items which are currently not reflected in OCI.

Informational content of OCI

Finally, regarding OCI items, we consider that the IASB needs to consider the informational content of these elements as opposed to the informational content of P&L. ANC considers that it is less the changes in the period of such items that are useful to users than the cumulative amount and movements for each item, which could be more indicative of the potential future in/outflow of resources as:

- These items are of a transitory nature;
- They are unrealised and may overturn in the future;
- They include amounts of a highly hypothetical nature.

In practice, we understand that users primarily base their projections of future cash flow expectations on the profit or loss and use OCI as merely being additional disclosure.

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?

We understand from the Board that the proposed Conceptual Framework will not have immediate effects on the current set of standards. We would however, as we previously have called for, have welcomed at this stage a preliminary review and description of potential impacts of the proposals on the existing standards as this would have shown fairness and transparency to the Board's constituents.

As the proposals currently stand, we would also expect, in addition to the inconsistencies mentioned by the IASB on IAS 32 and IFRIC 21, and without necessarily wanting existing standards to be modified, the following non exhaustive aspects:

- Inconsistencies carried forward as regards whether deffered tax assets and liabilities based on temporary deductible or taxable differences meet the definition of assets and liabilities;
- Future inconsistencies as regards the contractual service margin in the insurance contract project as to whether it meets the definition of a liability;
- Potential impacts on standards such as IAS 19, IAS 37 and IFRS 11.
  As an example, the proposed definition of a liability as "a present obligation of the entity to transfer an economic resource as a result of past events" may lead to recognise a liability based on a different timing than currently: for example for restructuring costs.

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

ANC first welcomes the introduction of a "business activities" concept in the draft Conceptual Framework.

However, the definition or a description of this concept is missing both in the draft Conceptual Framework and in its glossary. The term appears only in chapter 6 on measurement (paragraphs 6.30, 6.54 and 6.76) and in chapter 7 on presentation (paragraph 7.10) as one of the characteristics to consider to identify the relevant measurement basis and classification of elements.

Although ANC welcomes the acknowledgement of the role of business activities, we regret the very restrictive role the notion is granted in the draft Conceptual Framework. According to us, the concept of business activities is central and should play a greater role in standard setting. We consider that the entity's business activities need to be considered at every stage of the standard setting process (recognition, measurement, presentation and disclosure) to determine whether it is relevant for such consideration to drive the related decision made on how to account for the transaction/item considered. In addition, given our positions expressed in questions 1 and 12-14, we consider that the notion of business activities needs to be introduced in chapter 2 and be positioned in the context of the relevance of financial information.

As noted in our answer to question 2, we note that the concept of business activities is mentioned either implicitly by stating that financial statements are prepared from the perspective of the entity as a whole, (paragraph 3.9) or explicitly in paragraph 3.18(b) ("faithfully represent the economic activities of the entity").

Our understanding is that business activities/economic activities has the same meaning as business model (notion used in IFRS 9) as developed previously in our work on the topic and we propose to keep **only one** same term along all the Conceptual Framework. The term "business activity" seems the most adequate.

As part of this work, we more specifically consider the following aspects described in the Research Paper to be relevant to considering the notion of business activity in financial reporting and granting a more pervasive role than the Board seems to want to do.

> "5.7. Here are some possible criteria to help determine when the business model should play a role and be considered by accounting standard setters:
>
> a) When it leads to accounting which better reflects the economics of transactions (e.g. when a different recognition and measurement basis will produce an effect on the statement of financial position and the statement of comprehensive income on how value is derived);
> b) When it brings consistency in all the information reported (e.g. when financial information is reflected in a way which creates a natural linkage between the statement of financial position and the statement of comprehensive income and is read by the user in a comprehensive way to form a valid representation and expectation about the entity's performance);
> c) When financial statements are produced in a way to enable the user to derive key performance indicators discussed in chapter 4, which are reflective of how the company performs (currently many non-GAAP measures are disclosed outside the primary financial statements to fit that purpose; presentation of segmental information is an example to meet those needs);
> d) When financial statements based on the business model will present similar economic phenomena similarly to enhance comparability; and

e) When it produces information, which is more useful as a predictor of future results, including future cash - flows.

5.14 There are some general principles that accounting standard setters could, or perhaps even should, apply:

a) The business model addressed in a standard should not be entity-specific. It should be described in the standard and justified on economic grounds to address users' concerns of having a different business model for each specific case;
b) The business model used and described in a standard should be observable;
c) The business model should be considered equally to all the parts of the standard-setting process (recognition, initial and subsequent measurement, and presentation and disclosures);
d) The use of the business model should be based on high-level principles and detailed rules should be avoided; and
e) The use of the business model should meet a reasonable cost-benefit trade-off in all circumstances.

5.15. The need for a different accounting treatment for a business model in financial reporting should be supported by substantive evidence."

Therefore in our view an entity's business activities result from observable general ways/strategies of carrying out an entity's operations and differs from management intent.

In addition, given the complexity of a group reporting entity, it should be recognised that different business models may coexist within such a reporting entity.

Question 17 - Long-term investment

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

Whilst we consider that the proposals in the ED bring some welcome improvements in acknowledging a role for considering business activities and the relationship between assets and liabilities, we do not think the guidance included in the proposals are sufficient tools for the IASB to make appropriate standard-setting decisions in future projects on these topics as regards long term investments and liabilities, because, as we have mentioned in our answers to questions 12-14 and 16, such guidance does not go far enough.

In addition, we take the opportunity to remind the IASB of our disagreement in this respect with some recent standard-setting decisions which have not allowed such considerations to prevail (especially on IFRS 9).

Therefore, also having in mind our comments in our answer to question 1, we consider that, as the proposals stand, they are not sufficient for the IASB to conclude that:

(a) The proposals provide sufficient tools for the IASB to make appropriate standard-setting decisions if future projects consider:
    i. how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or
    ii. whether such entities should report changes in the carrying amount of those investments (or liabilities) in the statement of profit or loss or other comprehensive income.

(b) The Conceptual Framework contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting, to address appropriately 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.

Pervasiveness of concepts

As a general comment, ANC proposes that the document should be restructured in order to ease the reading. We have, regarding several concepts, mentioned that they ought to be taken into consideration in more areas of standard setting than the IASB proposes to do. Such concepts should be developed in the first two chapters of the Conceptual Framework, where relevant. Doing this would ease the understanding and enable the IASB to avoid having to repeat these in the other chapters at the risk of omitting areas where it would be appropriate to mention them.

Inconsistencies

We also have pointed to a number of areas with unclear or inconsistent wording. We urge the IASB to review those (and potentially other) areas to ensure consistency of language with the view to avoiding misunderstandings and inadequate translations.

Missing information/ definition

There are a number of areas where we have indicated that concepts or other aspects are either missing or insufficiently developed. We provide below comments on areas which we have not addressed in our other comments:

- The **materiality concept** is not well developed in the ED (only one paragraph, 2.11). We note that the IASB has published a draft practice statement on the subject of materiality. Subject to the comments the IASB will receive on those proposals, it may be useful at some point for the IASB to consider including further developments within the Conceptual Framework itself. Those may useful include considerations of terminology used throughout the standards which is inconsistent (material, significant, substantially all, etc.).
- Chapter 8 on **concepts of capital maintenance**: this chapter is, in our view, not articulated with concepts and considerations developed in the other chapters. We consider such articulation to be essential to fully comprehend the content of this chapter.