Institute
and Faculty
of Actuaries

Discussion Paper DP/2013/1: A Review of the Conceptual Framework for Financial Reporting

International Accounting Standards Board

Consultation Response

14 January 2014

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute
and Faculty
of Actuaries

Hans Hoogevorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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14 January 2014

Dear Mr Hoogevorst

DP/2013/1: A Review of the Conceptual Framework for Financial Reporting

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on this Discussion Paper (DP). The IFoA is the UK's chartered professional body for actuaries and our members put into practice many of the concepts under consideration in this DP. The IFoA supports the IASB's intention to identify and define many of the concepts that will underlie the standards the IASB develops and revises. We also refer the IASB to the response of the International Actuarial Association for more detailed comments from an actuarial perspective.

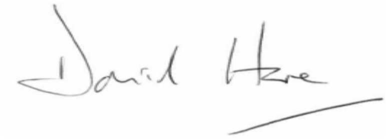
In our November 2011 response to the IASB Agenda consultation, we urged the IASB to complete its work on the Conceptual Framework and determine the general principles of asset and liability measurement before making further specific basis decisions, and so this step forward now is welcome. We are committed to supporting the IASB to ensure that a practicable and effective encompassing Conceptual Framework is developed. We note also that there are a number of high priority projects approaching completion and we are keen for further delay to these projects to be avoided. The Conceptual Framework is a crucial element of the accounting space and we are eager that sufficient opportunity for valuable external engagement is provided.

Generally, we agree with the principles within the Conceptual Framework and the general direction of travel. The tightening-up of the definitions of assets, liabilities and recognition should lead to a more consistent approach within the detailed Standards going forwards and this will provide greater clarity and consistency to preparers and users of accounts. Clearly, there will be further engagement as the Conceptual Framework approaches exposure draft stage and we will welcome that opportunity for fuller consideration of its detailed application.

We provide comment on the individual questions in the remainder of this response letter.

We trust that these comments will be useful to the IASB in further developing the Conceptual Framework. We reiterate the strong commitment of the IFoA to assist the IASB in this process leading to the anticipated exposure draft in 2014 and the final version of the framework. If you have any further questions on the points raised in this response, please contact IFoA Policy Manager, Helena Dumycz, in the first instance (Helena.Dumycz@actuaries.org.uk; +44 (0) 20 7632 2118).

Yours sincerely,



David Hare
President
Institute and Faculty of Actuaries

Section 1 Introduction
Development

Question 1
Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

(a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and
(b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

The IFoA agrees with these preliminary views.

Section 2 Elements of financial statements
Question 2
The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:

(a) an asset is a present economic resource controlled by the entity as a result of past events.
(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.
(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

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

We agree with these definitions. In particular, we find the inclusion of the word "present" helpful in the definitions of "asset" and "liability" as experience could be such that certain items can change their classification as an asset or liability from one measurement period to another.

Question 3
Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB's preliminary views are that:
(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.
(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.
(c) the recognition criteria should not retain the existing reference to probability.
Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

We agree with the IASB's preliminary view. We support the proposal that the Conceptual Framework should, in principle, recognise all items with limited exceptions. Making the definition of an asset or liability as well as the recognition criteria non-probability dependent helps to achieve this. In particular, “stand ready” type obligations or entitlements would be recognised whether the triggering event had occurred yet or not.

Question 4
Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52.

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

We believe that it would be helpful for the Conceptual Framework to identify these as elements of financial statements. We would further support gains and losses being identified separately.

Section 3 Additional guidance to support the asset and liability definitions

Question 5
Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50.

Do you agree with this preliminary view? Why or why not?

We support the IASB's proposal to retain the existing wider definition as we believe that the Conceptual Framework should look broadly at assets and liabilities. At a standards level, however; there is considerable complexity as to what may constitute a constructive obligation and adding more guidance to help distinguish constructive obligations from economic compulsion would be helpful.

As an illustration of this complexity, paragraph 3.42 notes that, under IAS19, a constructive obligation is one whereby unacceptable damage may be done to the entity’s relationship with its employees if the entity changed its practice regarding that obligation. However what may constitute unacceptable damage can change with both time and the social environment the entity operates within.

Constructive obligations should therefore be recognised as relative and somewhat changeable concepts for the application of standards. For example in the past, entities may have been more cautious about altering their pension promises and practices. Subsequent changes in the workplace and, more recently, the global financial crisis, have generally led to different policies and practices being in force today, and even the closure of some arrangements altogether.

Question 6
The meaning of ‘present’ in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity’s future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:
(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.

(b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.
(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.

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

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

Beyond concurring that View 1 is likely to be the least appropriate; we would be keen for the difference between View 2 and View 3 to be explored further. Example 7 in paragraph 3.73 for Contingent Consideration is helpful in highlighting how the three views can result in different accounting treatment and on the basis of this example, then View 3 would appear to be the more objective and representative approach. However, actuaries will see a variety of complex situations in their work where the variations are somewhat more obscure and as a result, View 3 may require more complex analysis to decide what should be shown. One such example is the treatment of discretionary pension increases and future salary increases on accrued defined benefit pension liabilities. Other examples can arise where practice goes beyond existing contract definitions (such as, under a critical illness policy where a provider may opt to pay out for a wider range of illnesses than initially contracted).

We would encourage the IASB to consider in more detail how the implications of the different views would vary across these types of discretionary items, and in particular, consider if the potential flexibility, yet inconsistency across businesses, introduced by View 2 is preferable to the wide ranging considerations and practical difficulties likely to be required to account accurately for them under View 3. In particular, the understandability of the options for users of the accounts will need to be a key priority and is worthy of further consideration.

Generally, we note that if a present obligation/benefit has arisen from past events, it should usually be recognised. An obligation/benefit that is wholly created by future activity arising out of past events should, however, be treated as a future obligation/benefit.

Question 7
Do you have comments on any of the other guidance proposed in this section to support the asset and liability definitions?

We have no further comments to make on this section.

Section 4 Recognition and derecognition

Question 8
Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:
(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or
(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

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

We agree it is important that, at the very least, all legal obligations and ownership of assets are recognised.

Regarding a), whilst we concur that the cost of reporting is a valuable inclusion, we note that "relevant information" is open to wide interpretation. This would encompass items that may more appropriately be dealt with in notes or supplementary reporting, such as certain intangible and goodwill items. The IASB could consider a criterion that assets and liabilities should only be recognised if economically viable and which assists in communicating the entity's performance and/or its financial position, i.e. it is useful information for users of accounts.

Regarding b), we note in particular that, while it may be more difficult to provide a faithful representation of an individual obligation/benefit, (for example, future claims under a life or medical policy for a named individual), measurement at the level of a portfolio of such obligations/benefits across multiple lives would likely provide a faithful representation. Additionally, an item can still impact future cashflows and the financial strength of an entity even if the measure of the asset or liability is not faithful at the measurement date. These items still require some recognition.

Generally, we are content with derecognition criterion (a) and less so with criterion (b) for the reasons provided above. If criterion (b) were amended to consider not just the faithfulness but also the usefulness of any representation, then this may more effectively encapsulate a reliability-type criterion. We would not regard the existence of uncertainty as a reason not to recognise an asset or liability. Indeed, we would regard the use of expected values together with suitable disclosures about risk and uncertainty as capable of being both faithful and useful.

We note below an example of where it may not automatically follow that it is appropriate for information about all intangible items that can be faithfully measured to be included in the balance sheet or income statement. As paragraph 8.6 notes, for the purpose of the statements of profit or loss (and OCI), the objective of financial statements is to depict information that is useful and

> *"8.6 To be useful, information...should help users of financial statements to understand the return that the entity has produced on its economic resources..."*

For example, the recognition and amortisation of the value of long-term contracts such as life insurance in an acquired entity could fail this test in that reported profit for contracts generated internally within an acquired entity before acquisition would be subject to an amortisation charge yet contracts generated internally and at the same time in the acquiring entity would normally be reported without an amortisation charge.

It may be that better and more useful information for decision-making purposes could be provided if the amount paid for long-term contracts in an acquired entity, which is not a closed fund and is therefore anticipating writing equivalent future contracts, is disclosed but not recognised separately for goodwill on the balance sheet and so is not amortised, i.e. it is reported in the notes to the accounts instead. In this way, internally generated goodwill would be treated equivalently during acquisition regardless of the entity that generated it.

We highlight this purely as an example of a situation where opacity may exist in some circumstances and the IASB may consider appropriate simplification in specific instances in the future.

Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular

Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:
(a) enhanced disclosure;
(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or
(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

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

We agree with the IASB's preliminary view of derecognition favouring 4.36(a). We also note that the option considered in paragraph 4.36(b) introduces a potentially probabilistic concept of "most of". This seems inconsistent with the removal of words such as 'expected' and 'probable' from the definitions of an asset/liability and recognition criteria. This inconsistency further strengthens the appropriateness of the control approach in paragraph 4.36(a).

Section 5 Definition of equity and distinction between liabilities and equity instruments

Question 10
The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1–5.59. In the IASB's preliminary view:
(a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.
(b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:
- ***(i) obligations to issue equity instruments are not liabilities; and***
- ***(ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)).***

(c) an entity should:
- ***(i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity.***
- ***(ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.***

(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.

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

A particular issue is that, for UK-style with-profits contracts, we understand that the intention of the Insurance Contracts 2013 Exposure Draft (which we responded to in October 2013) is that the policyholders' share of the undistributed surplus (commonly known as the "estate") is treated as a liability. This will need to be considered alongside the wider definition of equity and we discuss the various liabilities of with-profit insurers in more detail below. We believe it would be useful, and of benefit to both mutual and proprietary insurers, to distinguish in the disclosures between the estate liability and other liabilities.

For with-profit insurers, the with-profit fund will have liabilities that can be defined as:
a) Guaranteed liabilities – the benefit guaranteed to be paid on a particular contingency (less member payments and including expenses of maintaining the contract);
b) Discretionary liabilities – this would include, for example, policyholder bonuses on future payouts upon maturity and death;

c) Shareholder transfers related to the bonuses expected in (b)
d) Any further remaining value in the with profit fund which, in time, is expected to be distributed to shareholders and policyholders.

Application of the IASB's preliminary view within the Conceptual Framework would imply that for open with-profit funds, items (a) and (b) should be shown as liabilities yet item (c) should be reflected as equity along with item (d) as this item acts as working and solvency capital in an open situation. However, for a closed fund items (a) and (b) should still be shown as liabilities (although of differing values to in an open situation) and item (c) as equity, however, item (d) should be recognised as a liability, to the extent that the run-off plan reflects the surplus distribution. As referred to above there may be an inconsistency between the impact of the Insurance Contracts 2013 ED and the Conceptual Framework in this situation.

A wider concern is that the application of standards may result in mutual insurers showing no apparent capital, even though they are viable going concerns. Further clarification on the treatment of such insurers would be welcome.

Section 6 Measurement

Question 11
How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:
(a) the objective of measurement is to contribute to the faithful representation of relevant information about:
> ***(i) the resources of the entity, claims against the entity and changes in resources and claims; and***
> ***(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.***

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;
(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;
(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
> ***(i) for a particular asset should depend on how that asset contributes to future cash flows; and***
> ***(ii) for a particular liability should depend on how the entity will settle or fulfil that liability.***

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and
(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

This response applies to questions 11 to 14, inclusive.

We agree with the high level principles behind the IASB's preliminary views. The Conceptual Framework emphasises the concepts of an asset's contribution to future cashflows and the method of settling / fulfilling a liability. These concepts raise the prominence of variability and risk to future cashflows and settlement actions. As assessment of variability is often subjective, we would welcome further clarification of the IASB's approach to measurement so as to promote consistency of application.

We make two additional specific points relating to these questions:

1. It is not clear how these principles would be applied consistently at Standards level, and
2. There are implications for users where measurement bases are not consistent at Standards level.

1. Consistent application of principles

To expand on the first point, we note that certain obligations may have relatively predictable cash-flows, but this may not be reflected in the value put upon them, as a mark to market measurement (if this is applied) of those cash-flows may be highly sensitive to changing market factors such as discount rates.

The DP is not clear, for example, why some long dated obligations are valued on a marked to market approach and some measured at cost. The measurement decision does not seem to depend on whether and how the entity will settle or fulfil that liability (as per paragraphs 6.16 and 6.17). Arguments (developed in paragraphs 6.58 to 6.72, 6.97 to 6.109 and 8.49) provide that it may depend on factors such as the volatility of the cash-flows or whether the obligation is settled on stated terms or transferred (if it has been resolved to do so). However, these do not provide a clear justification as to why, for example, under current standards, real estate rental obligations are not recognised on the balance sheet, long term leases are measured at historic or amortised cost, and, while the company's own debt can be measured at historic cost or at fair value, a pension obligation of equivalent duration is marked to market (using government or corporate bond yields).

All these types of obligation could be equally material to the financial statements of a company. Thus, additional guidance as to how the Conceptual Framework considers measurement of these types of obligation would be helpful.

2. Inconsistent measurement basis

Regarding the second point, although we agree that *'...a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements'*, it is important that preparers and users of accounts understand how and where different measurement bases have been applied in a set of financial statements, in order that they are equipped to take decisions around the financial statements in that knowledge.

In particular, where measurement bases are not consistent across asset and liability types with similar economics, decisions based on the financial statements need to be made with care. We would agree that, where assets and liabilities are matched, a consistent measurement basis should apply (as implied by paragraph 6.22) to prevent artificial volatility in the financial statements.

However, the measurement of items may be volatile because the items themselves are inherently risky (or more risky than another item) and / or the difference in measurement basis may of itself, give rise to, or contribute to, that volatility (relative to the measurement basis used for another item).

We caution here that the use of different measurement approaches for obligations with similar economics gives rise to a risk that financial statements may not, without appropriate interpretation or adjustment, faithfully represent the performance of the business.

If users understand that different measurement bases have been applied and for what reasons, and also have the information to adjust financials to their own measurement bases, if appropriate, then comparability is not an issue in assessing management decisions in demonstration of good stewardship both within and between entities.

If users do not understand this or do not have the information to adjust measures, then comparability will be an issue. This could lead to poor decision making by management, potentially taking decisions which improve their (short term) accounting results, but which may not change their economics, or by investors making investments that they do not fully understand.

We made a related point in our response to the Insurance Contracts 2013 Exposure Draft where the exposure draft proposed mandatory recognition in OCI of all changes in discount rates from the inception of an insurance contract. We noted that this will introduce a significant accounting mismatch in P&L for the many asset types held by insurers that are required to be classified as fair value through P&L in IFRS. This will arise even for insurers who on an economic basis match asset and liability cash flows. A primary principle of the insurance industry is that assets and liabilities are managed together, yet the Insurance Contracts 2013 Exposure Draft proposals do not fully reflect this and will lead to material accounting mismatches. Similar asset and liability mismatches may also occur for investment business liabilities measured under IAS39 / IFRS9.

This highlights that standards themselves may lead to measurement mismatches between assets and liabilities which increases volatility and may reduce the ability of users to understand the business model and make appropriate judgements. To resolve this, when developing new or improved standards under the Conceptual Framework, the IASB should identify where inconsistent measurement bases could lead to accounting mismatches in the reporting of economically matched assets and liabilities (for some or all reporters) and then consider solutions to achieve consistent reporting (if appropriate).

Question 12
The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB's preliminary views are that:
(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.
(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.
(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.
(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

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

Please see our response to Question 11.

Question 13
The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:
(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
(b) a cost-based measurement will normally provide the most relevant information about:
 (i) liabilities that will be settled according to their terms; and
 (ii) contractual obligations for services (performance obligations).

(c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.

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

Please see our response to Question 11.

Question 14
Paragraph 6.19 states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:
(a) if the ultimate cash flows are not closely linked to the original cost;
(b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or
(c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (ie the asset or the liability is highly leveraged).

Do you agree with this preliminary view? Why or why not?

Please see our response to Question 11.

Question 15
Do you have any further comments on the discussion of measurement in this section?

Section 4 discusses whether and how items are recognised in the balance sheet or income statement and Section 6 goes on to consider measurement approaches. There is a long-standing tension between advocates of the balance sheet and advocates of the income statement as to which provides the most relevant information for users and hence the most appropriate measurement approach to apply. Many users may wish to use the income statement to help assess the sustainability of income in the future, whereas the balance sheet may be used to judge the company's resilience and ability to survive. Viewing income as the sole difference between successive balance sheets may not be consistent with these objectives.

Relevant information for users is a key consideration when defining balance sheet items. However, the DP implies that relevant information to users has a lower weighting when considering the use of OCI. We note that, in section 8, the IASB seems to be seeking more control or consistency of the treatment of items that go through OCI.

However, management typically disclose non-GAAP financial information in an attempt to enhance understanding of the income statement and this will likely continue in the future. It would be helpful if the IASB could provide a view as to how such tensions between the primary statements will be managed and if any hierarchy of accounting concepts is expected to be in place (e.g. where consistency might be favoured over relevance).

Section 7 Presentation and disclosure

Question 16

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:

(a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and

(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:

> ***(i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;***
>
> ***(ii) amendments to IAS 1; and***
>
> ***(iii) additional guidance or education material on materiality.***

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:

(a) presentation in the primary financial statements, including:

> ***(i) what the primary financial statements are;***
>
> ***(ii) the objective of primary financial statements;***
>
> ***(iii) classification and aggregation;***
>
> ***(iv) offsetting; and***
>
> ***(v) the relationship between primary financial statements.***

(b) disclosure in the notes to the financial statements, including:

> ***(i) the objective of the notes to the financial statements; and***
>
> ***(ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.***

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.

We support the provision of guidance as summarised in the DP. In particular, we support that the Conceptual Framework should encourage preparers to disclose the material entity-specific risks. The financial statements should not be used as a prospectus detailing all business risks and this level of prescription should be avoided. Similarly to question 15, any comments detailing the management of future tensions would be welcome.

Question 17

Paragraph 7.45 describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality.

However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

We agree that the concept of materiality should also be developed outside of the Conceptual Framework as this will be of importance to preparers and users, alike.

Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.

Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

We broadly support the balance of the principles in paragraph 7.50 and believe these would increase the understandability of and value derived from the disclosures. In particular, we refer the IASB to part two of our response to Question 11 regarding the importance of comparability of information, both within and between entities. If information is not presented in a way that allows for reliable comparison for example, assets shown at amortised cost with related liabilities at fulfilment value, disclosures should then provide a basis for reconciliation.

Section 8 Presentation in the statement of comprehensive income—profit or loss and other comprehensive income

Question 19
The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.

Do you agree? Why or why not?

If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or amending Standards?

We agree that total and subtotal information for profit or loss is useful to users of financial statements.

Question 20
The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, i.e. recycled, is discussed in paragraphs 8.23–8.26.

Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?

We have reservations more generally on the mandatory use of the OCI, where assets and liabilities are economically matched and an accounting mismatch may arise due to the different timing of recycling gains and losses from OCI to P&L.

Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79–8.94).

Which of these approaches do you support, and why?

If you support a different approach, please describe that approach and explain why you believe it is preferable to the approaches described in this Discussion Paper.

At this early stage in the development of the Conceptual Framework, we would encourage the IASB to consider in more detail, the implications of the different approaches on the items included in OCI and the accounting impact thereof. The provision of practical examples and case studies illustrating the difference in approaches would be helpful in future iterations of the Conceptual Framework.

Section 9 Other issues

Question 22
Chapters 1 and 3 of the existing Conceptual Framework
Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

There are two areas where we would suggest the IASB amend the relevant chapters:

1. Whilst we agree that neutrality is a clearer principle than prudence on which to base measurement for financial reporting purposes, we do consider that where an obligation/benefit (or its measurement) is subject to significant uncertainty, and that obligation/benefit is material to the financial statements, that the nature of that uncertainty is at least covered through disclosure.

2. It would also be helpful for the IASB to clarify that users of accounts covers a broad range of stakeholders including employees, pensioners (where the entity operates a non-insured defined benefit pension plan) and, for insurance companies, their policyholders, as well as shareholders / investors.

Question 23
Business model
The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful? Should the IASB define 'business model'? Why or why not?

If you think that 'business model' should be defined, how would you define it?

An initial view is that the business model concept could be of use when considering some of the issues of economic matching and accounting mismatching raised in our response to questions 11 - 14. If the entity's business model is to broadly match assets and liabilities, then it may be plausible to introduce business specific adjustments / flexibility that allow the overriding concept of consistency of measurement in balance sheet and income statement to prevail. This could help to avoid the accounting mismatch introduced through a uniform application of accounting approach for all business types.

Question 24
Unit of account

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

Do you agree? Why or why not?

We agree that the unit of account should be addressed in the context of particular standards.

Question 25
Going concern

Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?

The going concern assumption is also relevant for revenue where this is based on estimates, i.e. an insurer entering a run-off phase would face different costs and risks to those in an ongoing situation.

Question 26
Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

We are content with the IASB's proposed approach to apply the exiting concepts of capital maintenance.